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ARGENTINE AIRCRAFT SHOT DOWN ● SECURITY COUNCIL MEETS AGAIN

NEWS SUMMARY

GENERAL

Begin hits out at U.S. weapons sales plan

Israel's premier Menahem Begin has attacked U.S. plans to sell aircraft and missiles to Jordan.

Begin accused U.S. Defence Secretary Caspar Weinberger of only paying lip service to the maintenance of Israel's military edge in the Middle East. **Page 4**

The U.S. Secretary of State Alexander Haig said in a television interview that some early progress is expected in talks on Palestinian autonomy.

Costa Rica has moved its embassy back to Jerusalem. Israel regards this as a diplomatic breakthrough and hopes other countries will follow.

Gulf battle

Iranian forces have launched a new offensive to drive Iraqi troops from Khorramshah, according to reports from both sides.

Pole can leave

Jan Josef Lipski, a top official in the suspended trade union Solidarity, has been given permission to leave Poland to travel to London for treatment for a heart condition.

Abduction fear

French police suspect that exiled Romanian writer Virgil Tanase, who went missing in Paris last week, may have been abducted by the Romanian secret service.

Strike threat

Yorkshire miners' leaders are considering calling a 24-hour strike in support of Health Service unions who are taking action on June 4, over a 12 per cent pay claim. **Page 9**

Ulster fires

Three died in two house fires in Northern Ireland. A man, aged 22, and an eight-year-old girl, in Lisnaskea, and a 79-year-old woman in north Belfast.

Divorce law plea

The Campaign for Justice in Divorce has urged the Government to stop "dragging its heels" and change the divorce law, so as to end all maintenance payments to adults. **Page 6**

Monaco winner

Riccardo Patrese (Italy, Brabham) won the Monaco Grand Prix after Alain Prost (France, Renault) crashed while leading.

Council row

Council services in Wandsworth, London, face a total shutdown within two weeks in a long-running dispute between the council and unions over privatisation. **Page 9**

Loophole worry

The Government now accepts that many unions and employers will get round the *closed shop* provisions in forthcoming employment legislations by concluding deals at a local level. **Back Page**

Rape trial

The trial of three Glasgow youths for rape and assault, being brought by private prosecution, starts today at Edinburgh's High Court. It is expected to last four days.

Briefly . . .

Police in Toronto are probing the deaths of 43 children at the city's Hospital for Sick Children.

Cevdet Sunay, President of Turkey from 1966-73, died in Istanbul, aged 82.

A major fire at Texaco's oil refinery at Milford Haven is being investigated by police.

Death toll in a weekend bomb blast in Beirut rose to 12.

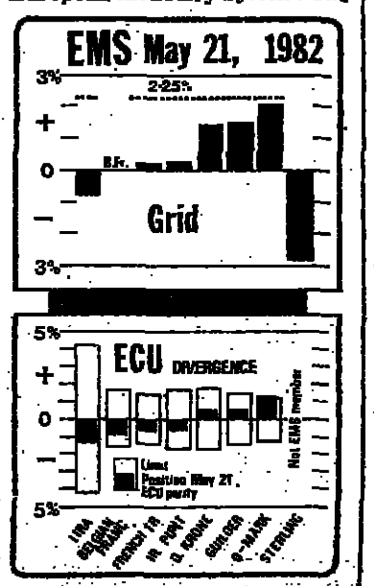
BUSINESS

Economic outlook 'remains bleak'

● U.S. and Europe's outlook for economic recovery and unemployment remains bleak, according to a confidential paper by the Organisation for Economic Co-operation and Development. **Back Page**

● U.S. Government was urged by Herr Karl Otto Poehl, West German Bundesbank president, to curb its budget deficit to help bring down world interest rates. **Back Page**

● **WEST GERMAN** interest rates declined last week after the earlier reduction in the Bundesbank Lombard rate. There was no sign of any other action by the central bank to bring the currency back under its divergency limit within the European Monetary System. The Danish krone lost ground, finishing almost level with the Dutch guilder as the second and third strongest members of the system. The Belgian franc was firmer and, in spite of remaining the second weakest EMS currency, was under less pressure. The weakest currency was the Italian lira.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid based on the weakest currency in the system defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU) itself a basket of European currencies.

● **EURODOLLAR** bond market is preparing for several issues in June, in spite of continuing uncertainty over short-term interest-rate trends. **Page 19**

● **GOVERNMENT** is considering tightening the rules of its small firms loan guarantee scheme. **Back Page**

● **EUROTRAG**, the European consortium in which Taylor Woodrow and Wimpey have a 22½ per cent stake, signed a protocol agreement with Gabon for a CFA168bn (£308m) contract to build the trans-Gabon railway's second leg. **Back Page**

● **GEC** research director Derek Roberts is seeking ideas for a major *British collaborative* research programme in advanced micro-electronics. **Back Page**

● **OCCIDENTAL** Petroleum, U.S. oil company, is heading for reduced profits this year and plans major business cuts. **Page 18**

● **CAROLINA BANK**, UK subsidiary of North Carolina National Bank, increased pre-tax profits by 81 per cent to £2.24m in 1981. **Page 16**

● **ORIFLAME** International, Luxembourg-registered cosmetics group, is to raise £5.2m by an offer for sale of its shares. **Page 16**

Order to retake Port Stanley

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT

THE BRITISH task force in the South Atlantic has been ordered to recapture Port Stanley as quickly as possible and secure *an unconditional surrender* from Argentine troops there, it was indicated in Whitehall yesterday.

The Ministry of Defence reported last night that there was a number of raids against the ships of the task force in the early afternoon. Five Mirages and one Skyhawk were shot down by British ships, aircraft and land-based anti-aircraft missiles around San Carlos water. One British frigate sustained damage but the extent of this was unknown.

Following their successful establishment of a bridgehead on East Falkland, task force commanders have been told that the Government would like to see events move to their conclusion as soon as possible. The Government hopes that Port Stanley can be cautured within days.

Britain's political and military leaders are encouraged by the success of the landings on Friday morning in the San Carlos area, with what is considered relatively small loss of British lives—20 on the frigate Ardent, which sank after Argentine fire, and eight others dead or presumed dead. Argentine casualties are not known.

However, British and Argentine views of Friday's action and what has been happening in the two days since then are considerably at variance.

Yesterday the Ministry of Defence described a 36-hour lull during which the British landing had ben consolidated and had met with no opposition. Aircraft from the task force had continued to patrol, it said, and had attacked Goose Green airstrip.

The Defence Ministry has not said how many Royal Marines and paratroopers landed at Port San Carlos but yesterday Sr Nicanor Costa Mendez, the Argentine Foreign Minister, said British and American newspaper reports that there could have been as many as 5,000 was "complete misinformation." The Argentines yesterday said that not more than 400 marines were ashore and were being harrassed by Argentine fire.

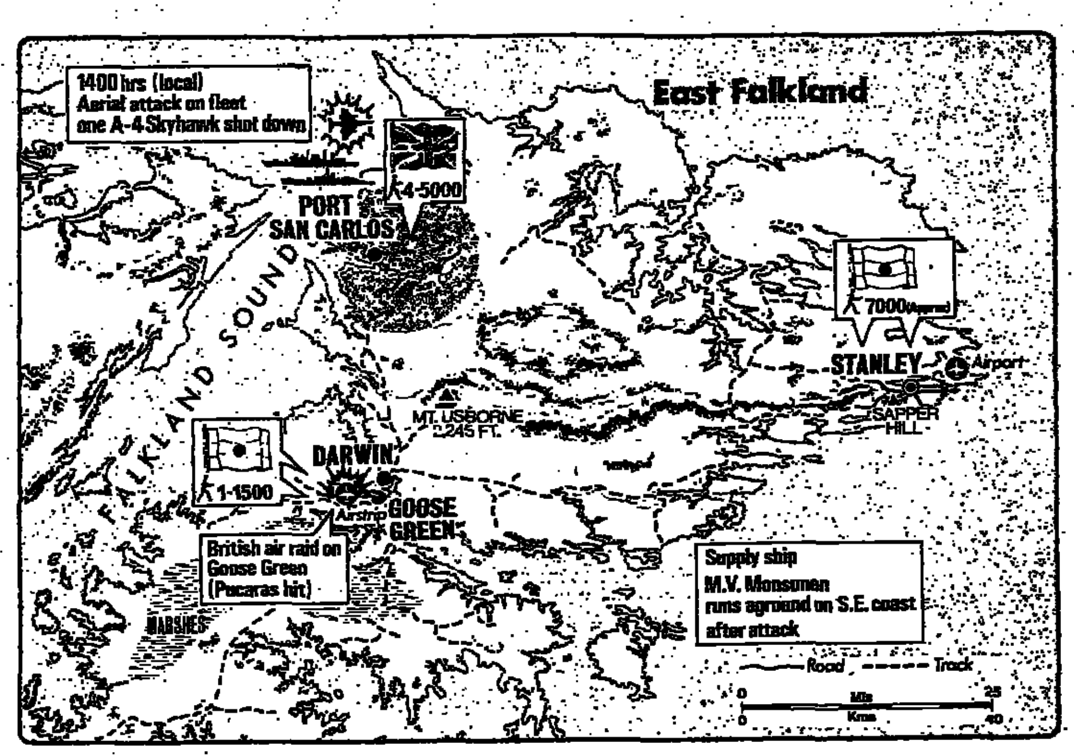
In Buenos Aires yesterday, Argentina's air force commander, Brigadier Basilio Lami Dobzo, said that his forces were ready to drive off any more attacks on the islands.

Argentina's main advantage in the current conflict is its air force which, even with the heavy losses suffered so far, probably still has more than 100 fighter/bombers against the British task force's estimated *35-40 Harrier jump jets.*

Yesterday Brigadier Lami Dozo was quoted in Argentine newspapers as saying that at least 72 Argentine aircraft had been deployed in Friday's engagegements. There had been three squadrons of A4 or A4C, each with 12 aircraft, while two squadrons of French-built Mirage 111s and one squadron of the Israeli Dagger, a copy oft he Mirage, also took part in the fighting, he said.

Officials in London seemed confident yesterday that the task force was in — and could

Continued on Back Page
Falklands Crisis, Pages 2 and 3



FALKLANDS WEATHER: Wind W Force 6-7 (25-30 knots); 12 ft seas. Cloudy, showers. Temp upper 30s F. OUTLOOK: Wind NW, Force 7-8 (25-30 knots). Cloudy, rain developing. Temp low- to mid-40s.

Full UK control of Falklands needed 'for at least 6-12 months'

BY OUR FOREIGN AND POLITICAL STAFF

BRITAIN has come to the conclusion that it is necessary to maintain full control over the Falkland Islands for at least six to 12 months after the end of the hostilities which are being pursued to force the Argentines out.

As the British ground forces pressed inland from their beachhead at Port San Carlos, on the northern coast of East Falklands:

● Mr Francis Pym, the Foreign Secretary, said on U.S. television that it seemed "very likely" that Britain would have to complete repossession of the islands by force.

● Mr Cecil Parkinson, Conservative Party chairman and a member of the "inner Cabinet," said it was difficult to imagine any circumstances in which either the islanders or the British people would ever agree to ceding sovereignty.

● Sr Nicanor Costa Mendez, the Argentine Foreign Minister, said in New York that his *country had widespread support* from other Latin American countries, from the Soviet Union, and Poland.

● President Mitterrand reaffirmed France's solidarity with Britain over the Falklands crisis, saying that this support *should not be in doubt.*

● Mr Alexander Haig, U.S. Secretary of State, said there could be little hope of a diplomatic settlement until there was a clear change in the military position. But he added that sacrifices and military frustrations could present "rather auspicious circumstances for negotiations."

For the moment a tough line has emerged in Whitehall in the wake of the early military successes. Ministers accept that the maintenance of a long-term presence on the islands may prove expensive, but believe that British public opinion would not allow the islands to be given away.

When the islands were recaptured, Mr Parkinson said yesterday, Britain as a nation would have to be prepared to pay the price of keeping them until a solution could be found acceptable both to the islanders and the British people.

The message from Downing Street was that the entire situation *had been changed* by Argentina's refusal to agree to a negotiated settlement. Argentina had, by her intransigence, forfeited any hope of eventually being awarded sovereignty over the islands she has claimed for the past 149 years.

There are indications that the Government is turning its attention increasingly to the difficult political and military implication of the situation in the South Atlantic after control over the islands has been restored.

Mr John Nott, the Defence Secretary, will make a statement in the Comons today spelling out the Government's determination to reclaim the islands as soon as possible, and making clear that it believes the only way of getting the Argentines to the negotiating table in a suitably compromising frame of mind is through use of force.

This hard attitude was spelt out yesterday by Mr Parkinson, who said that diplomacy would have to take the "back seat"

Speaking on BBC Radio 4 he said the Government did not intend to fight a "long and bloody war. Having established a secure base we are planning to move, and to move fast."

The Government will almost certainly get the support of the Opposition at Westminster for its decision to retake the islands as soon as possible, though some Shadow Ministers were alarmed yesterday at suggestions that it was after an unconditional surrender.

One clue to official thinking came from Mr Pym, who told U.S. television viewers yesterday that a long-term solution might involve a "broader pattern" of defence and economic development, involving other countries and perhaps the United Nations.

After repossession, he said, there would probably not be an "immediate" role for the *United Nations in the islands'* defence.

At the UN the Security Council went into a third day of open debate on the crisis in the South Atlantic, with Argentina making clear that her intention was to place Britain in the dock of world opinion.

Sr Costa Mendez, who arrived in New York from Buenos Aires on Saturday, said before attending the debate that Argentina was no longer involved in any parallel negotiations to end the war. His country would not seek a resolution against Britain.

Before adjourning for the day the 15-member Council heard the French delegate call for every possible urgent effort to end the fighting. The Soviet *Union called for an immediate* cease-fire.

In Dublin, Mr Charles Haughey, the Irish Prime Minister, said Irish efforts at the UN would be directed to giving the Secretary-General a formal mandate to maintain his *peace efforts.*

He defended Ireland's continued opposition to EEC trade sanctions against Argentina.

Tories deny snap election plans

BY ELINOR GOODMAN, POLITICAL CORRESPONDENT

MR CECIL PARKINSON, the Conservative Party chairman, moved quickly yesterday to quash suggestions that the Tories might be about to cash in on the Falklands dispute by going for a snap election.

So far as he was concerned, he said, there was no question of an autumn election.

The Falklands crisis, he insisted, was "way above party politics," and the Conservatives "wouldn't dream of engineering an election round it."

Instead, he hinted, the Government might well go its full term, and not go to the electorate until early 1984.

Speculation that the Government might go for a "khaki" election was fuelled at the week-end with a speech by Mr Francis Pym, the Foreign Secretary, in which he urged his local party in Cambridge*shire to set its sights on the* next election.

His speech appeared to confirm the worst fears of the Tories' political opponents that the Government might be about to exploit the support it has received for its handling of the *Falklands crisis* by an autumn election.

Mr Pym was apparently surprised by the interest his speech attracted. Yesterday his colleagues were saying privately that the speech was an unfortunate lapse by the Foreign Secreary, who throughout the past few weeks has tried to keep politics out of the dispute in an attempt to maintain a united front at Westminster.

With the opinion polls showing the Tories moving well ahead of the other parties during the crisis, MPs have wondered, for the most part only half-seriously — whether Mrs Thatcher would try to repeat *the Tories' success at the local* elections in a General Election.

But her advisers are firmly of the opinion that such a move would rebound dangerously on her, and make a mockery of her claim to have the nation's best interests at heart.

It would be at odds with the party's oft-repeated message that it will take at least two full terms for the Conservative Government to achieve all its objectives.

It has been pointed out that the record of elections fought on single issues, like the miners' strike in 1974, is hardly such as to encourage Mrs Thatcher to follow suit.

Yesterday, speaking on BBC Radio 4, Mr Parkinson said that with two years of its term still to go, the Government had "many things" still left to do. He believed that it would see "its office through."

It is acknowledged that the Falklands crisis has given the Tories a tremendous boost which looks like providing success not only in this week's by-election in the traditionally safe Tory seat of Beaconsfield, but also *in next week's poll in the marginal* South West London seat of Mitcham.

The Government is acutely aware that support could evaporate quickly if there are heavy casualties, but so far neither the Labour Party nor the SDP Liberal Alliance has found a way of dealing with the Tory by-election appeal to "vote Conservative and back your Government."

The Liberals, who two months *ago thought they might just scrape home at Beaconsfield,* have found the electorate unreceptive at present to reminders of domestic problems.

It is clear that the Prime Minister's handling of the dispute has reinforced her image as a "firm leader," both internationally and when dealing with domestic economic issues.

The crisis has reopened some divisions in the Labour Party *which were painstakingly* covered up in the run-up to the local elections.

Today Mr Michael Foot, the Labour leader, is expected to see the three Front Bench Opposition spokesmen who rebelled in Thursday votes on *the Falklands, and to tell them* they have effectively sacked themselves by failing to keep to the agreed party line.

Crucial EEC meeting as UK considers reprisals

BY JOHN WYLES IN BRUSSELS

THE BRITISH Government seems likely to give in to growing domestic pressure and be ready to take reprisals against its EEC partners if they fail at a crucial meeting in Brussels today to repair some of the political damage caused by the majority vote on farm prices last week.

Senior Community Ministers have avoided publicly discussing the crisis sparked by the vote over-ruling Britain's opposition to farm price rises for fear of prejudicing the attempt that Mr Francis Pym, Foreign Secretary, will make to salvage the situation today. He is expected to urge his fellow Community Foreign Ministers:

● To consider renewing sanctions against Argentina which *expire at midnight tonight;*

● To make the necessary concessions leading to a speedy agreement to reduce Britain's payments to the EEC budget this year;

● To assure the UK that its use of the national veto on EEC decision-making will not again be overridden.

If other EEC governments remain generally inflexible, particularly over the budget problem, London is reluctantly concluding that it may have to go on the offensive later this week, probably by threatening to withhold part of our payments to the EEC budget.

But this could harden attitudes in Paris and Bonn. There are fears in Brussels that neither government wishes to duck a confrontation which would present France with the opportunity to put pressure on Britain towards a changed UK role in the EEC, as floated by President Mitterrand last week.

The Foreign Office would not confirm yesterday that Mr Pym will be seeking a continuation of the EEC ban on Argentine imports which was renewed for seven days last Monday. But other governments expect to be asked to renew sanctions, despite Britain's counter-invasion of the Falkland Islands. It is likely that the same seven governments currently banning Argentine imports would continue the ban while Italy and Ireland would confirm their non-participation.

Ministers, however, may agree that this split is politically too damaging to be continued and that the Community should drop the measures.

More generally, today's discussion of the British budget problem should give clear indications about whether other governments want to conciliate the UK following their victory on farm prices. Britain is indicating that it needs a special *rebate this year of £564m* compared with the £450m the other nine have been offering on a take-it-or-leave-it basis.

As in the past on this issue, the West German response could be the key, and there are signs that Herr Hans Dietrich Genscher, the West German Minister, may try to buy time by pleading that he needs a Cabinet decision before he can agree to an increase on the existing offer.

Mr Pym may face further disappointment in his quest for reassurance that the British veto will not again be overridden on issues where London says important national interests are at stake.

Feelings at Westminster are running high on this question, particularly because of fears that at the end of the year the other nine could impose a common fisheries policy giving them access to Britain's inshore fishing grounds.

Denmark and Greece are as keen as the UK to re-establish the Luxembourg Compromise of 1966 which requires unanimous decisions when governments request them. Other member states, however, want more opportunities for majority decisions.

Mr Pym is unlikely to win any firm undertaking today and he may be urged to deal with the problem through discussions and agreement on Italo-German proposals for a draft European Act. These would preserve the national veto while attempting to prevent the abuses of the past which have blocked agreements on a host of minor issues.

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THE FALKLANDS CRISIS

Bridget Bloom, our Defence Correspondent, examines the two main options facing the task force

Tightening the screw on Stanley or a rapid advance

THE BRITISH task force which landed on East Falkland on Friday, now has two basic option:

● They can either plan for a phased operation, where they pick off small units of Argentine troops and continue to tighten the screw on the two main garrisons at Port Darwin and Port Stanley, maintaing the isolation of West Falkland.

● They can move as rapidly as possible to surround and confront the two concentrations on the East island.

The aim in both cases would be to bring about the surrender of the estimated 9,000-strong Argentines on the Falklands and gain total repossession of them for Britain.

From available information—and as in the military build-up and engagements so far, information is being very carefully controlled by the Ministry of Defence—the second course is the most likely.

"We are going to move—and move fast," Adml Sir Terence Lewin, Chief of Defence Staff, said on Saturday as he declared that the landings had achieved their aim and that "despite the likelihood that the next days will also be difficult," the confidence of the task force was high.

Sir Terence's sentiments were echoed by Mr. Cecil Parkinson, Paymaster-General, and a member of the inner War Cabinet yesterday. "We do not intend that this should be a long and bloody war," Mr Parkinson said.

The advantage in a longer, slower campaign are said to be that a gradual tightening of the military screw would further undermine the morale of the Argentines on the island and make it more likely that the main garrison at Stanley would surrender without a fight, thus saving Argentine and British military and civilian lives.

The disadvantage in this is that such a gradual approach would give the Argentine air force the breather it needs.

Despite heavy losses—probably 30 aircraft since the campaign began—Argentina can probably still muster three times as many fighter bombers as Britain has Harrier jump jets.

There are several other reasons why the task force will probably move quickly. The force—which appears considerably larger than was at first thought—is now ready and waiting, and well supplied.

There are an extra 3,000 troops on the QE2 believed to be less than a day's sailing from a possible landing. Further waiting could cause supply problems for the British garrison ashore. It is also worth noting that the marines and paratroops in the task force are not garrison troops: they are trained to be mobile and move very fast.

There is in addition a key political reason why the government wants action now. To wait would give the Argentines time to mobilise international opinion in favour of a ceasefire before Britain has gained its military objectives.

It seems quite clear now that Mrs Thatcher and her government would prefer any negotiations which might take place in the future, to do so when the Union Jack flies over Port Stanley as well as over Port San Carlos.

But if, as seems probable, Rear-Admiral John Woodward will have orders to move quickly, what will be the key elements which he must take into account?

The first task will obviously be to establish precisely where the Argentines are (here, the Special services— the SBS and the SAS—have clearly been busy) and how to neutralise them.

It seems clear that Darwin, on the narrow isthsmus in the middle of East Falkland, must be a prime target, though it is far from clear whether an attempt would be made to attack the estimated 1,000 troops there, or to isolate them.

This will partly depend on whether Britain wants to use the airstrip at Darwin rather than just deny its use to the Argentine garrison, and also on whether the task force decides to use Darwin as a main base for an attack on Stanley.

Land communications are appallingly difficult in the Falklands, but there is at least an uncertain track from Darwin to Stanley.

There is very little chance of movement by land from Port San Carlos to Stanley, at the end of the barrier of hills, which includes the aptly named No Man's Land.

The second key element will be that of surprise and some strategists yesterday were suggesting that Admiral Woodward might well decide to re-embark many of the men from Port San Carlos and move them round by sea to a suitable landing place near Darwin or Stanley.

Whatever happens, it is likely that when an attack or a landing comes, the force will attempt to maximise its forces at the point of attack, as it did last Friday, and that it will vary the weapons used—air and sea bombardment, possibly with some land-based artillery—to secure maximum harassment of the Argentine garrisons.

A third key element will be mobility—the use of helicopters will be particularly important in transporting troops if the base of San Carlos is to be used.

Finally, there is the weather, highly unpredictable but favourable to the British task force landings if it is cloudy or misty rather than—as it apparently was last Friday—clear with moonlit skies.

The right combination of weather could also make flying difficult for Argentina, using its mainland bases, but still possible for Sea Harriers bent on harassment troop positions or denying the use of airstrips.

What are the main dangers in these "next difficult few days?" Further air attacks from Argentina are expected, either on the new base at San Carlos, or on the task force fleet.

Apart from the weather, and the actual operational state of Argentina's fighters, much could depend on whether Britain's new surface-to-air Rapier missile system, believed to have been taken ashore at San Carlos, proves effective.

Most of the fleet is said to have withdrawn east of the islands and out of range of shore-based aircraft. But the lucky escape of several ships on Friday was described as "horrifying" in its implications by one former Chief of Air Staff yesterday.

Reporters with the task force described how "attack after attack" failed to hit the troop-carrying liner Canberra, while at least two British warships were hit by bombs which failed to go off (and have apparently since been defused).

So far, the task force has lost seven Sea King helicopters and two smaller Gazelles, while it seems that four Sea Harriers have been lost.

Both helicopters and Harriers will be vital in the days to come. The attrition rate will be watched very closely by the task force commanders.

Finally, though they do not yet appear to have been very active, Argentina's three remaining operational submarines must be a constant worry to Adml. Woodward, whose absolutely critical task must be to guarantee the safety of his two aircraft carriers.

Buenos Aires newspapers have painted a picture of victory for Argentine forces in fighting against British landing parties on the Falkland Islands, AP reports from Buenos Aires.

"Heavy enemy losses in yesterday's fighting," said the front page headline in the daily La Nacion. "Great reverse for the invader in the first battle," said the mass circulation Cronica, "Victory," said the tabloid Diorio Popular.

The tabloid Conviccion, which often reflects opinions of the Argenty navy, said: "The first day of invasion has cost Great Britain nearly 300 dead and approximately $1bn."

Countdown: Argentina's Foreign Minister at the Security Council.

More support at UN claimed by Argentina

BY PAUL BETTS IN NEW YORK

SR NICANOR COSTA MENDEZ, the Argentine Foreign Minister, said yesterday his country was not involved in negotiations to end the war in the South Atlantic. Before attending a rare Sunday session of the United Nations Security Council, the Minister said his country was only "speaking" within the UN framework.

"We have not come here to seek any resolution. We have come here to denounce Britain," he said, claiming his country had the wide support of other Latin American nations, the Soviet Union and Poland.

The third day of the debate at the Security Council opened yesterday with a French delegate, M Luc de la Barre de Nanteuil, calling for every possible effort to end the fighting to be made urgently. France, he said, supported the peace efforts of Sr Javier Perez de Cuellar, the UN Secretary-General, who abandoned them on Thursday night.

The French Ambassador asked the Security Council to give the Secretary-General "the wholehearted support he needs." But he added that the initial responsibility for the conflict belonged to Argentina, the country which first used force.

Many Latin American countries, as expected, have rallied to Argentina's support in the debate, while the Soviet Union has called for an immediate cease-fire and that the Secretary-General be given a formal mandate to renew his peace efforts.

The debate has inevitably turned into a highly rhetorical and acrimonious forum—with the two sides in the conflict accusing each other—and is expected to drag on.

Buenos Aires military acknowledges 'slow arduous task'

BY HUGH O'SHAUGHNESSY, LATIN AMERICA CORRESPONDENT

AS THE battle for the Falkland Islands continued over the weekend, the Argentine military was acknowledging that its infantry's task would be "slow and arduous."

The soldiers were being supported by 88mm mortars and 105mm field guns, while the air force said it used one squadron of Douglas A-4 Skyhawks and two squadrons of Mirage V Daggers to harass British troops.

A squadron of Mirage III Interceptors, meanwhile, stood off to tackle any RAF Sea Harriers which sought to intervene. Pucara counter-insurgency aircraft were also used.

The aircraft were based on the mainland and the island, and the tactics were said to be for the attacking aircraft to fly as low as possible to minimise radar detection—although that was risk because of the hills near the British beachhead.

While the Argentines reject British claims that 20 Argentine aircraft were destroyed during the landing, they admitted that their air tactics could bring losses.

British superiority in radar had obliged Argentine pilots to fly close to sea level. One pilot of a Canberra bomber was quoted as saying, "the difficulty is that this means windscreens get covered with sea-water and the build-up of salt impairs our visibility."

On Saturday, Gen. Leopoldo Galtieri, the Argentine president, in a low-key but emotional speech, paid tribute to the air and ground crews of the Argentine air force. He said they were flying aircraft "most of which are two decades old," and he claimed that the British had suffered considerable losses which they would find difficult to make up.

The Argentine military was yesterday countering claims that runways for aircraft were being constructed at the British beachhead, saying that the ground was too boggy to support them.

On the diplomatic front, the tactic of the junta is still to support any calls for a cease-fire. Gen Galtieri issued a statement yesterday, accepting the Pope's call for an end to hostilities. He said Britain was seeking to return to a colonialist situation.

Argentina also sees an advantage to be gained by airing its case in the UN Security Council and the General Assembly, but is resigned to the eventual use of a British veto against any resolution not acceptable to London. Argentine diplomats are trying to neutralise U.S. support for Britain, or at least to prevent the supplies of U.S. material to British forces.

Buenos Aires has been attempting to capitalise on the long-cherished hopes of many in the State Department and Pentagon for an active anti-communist alliance between the U.S. and various Latin American governments, and for the realisation of long-term plans for a military pact to embrace allies of the Reagan administration on both sides of the South Atlantic.

Such plans, Argentina argues, will come to nothing if Washington continues to support Britain. Consequently Argentina is busy mending its fences with Latin American capitals and trying to play down its traditional policies of indifference to its neighbours.

The release by the junta on Friday of the Peronist opposition leader, Sr Abal Medina — who had been in asylum in the Mexican embassy in Buenos Aires since March 1976 — is seen as an indication of Argentina's desire to reinforce links with Mexico, which has been pressing for his release.

There are still powerful govern- voices for closer relations with the Soviet Union, if these would allow Argentina to retain the Falklands. But there is no binding the fact that Buenos Aires is alarmed at the unwillingness of Moscow to continue its grain purchases from Argentina at a time when the latter has sold only about half its exportable grain surplus of 12m tonnes and is desperate for foreign exchange.

Tass returns to attack on Britain

THE SOVIET UNION yesterday renewed its propaganda attacks on Britain over the Falklands conflict and said that the U.S. shared major blame for the fighting, AP reports from Moscow.

Recounting the British landings on the islands and the breakdown of talks to avoid war, the Soviet news agency, Tass said:

"The responsibility for all this is also borne by those states; above all the U.S., which associated themselves with the British stand, which openly sided with London and thereby actually encouraged it to seek a military solution."

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Pope calls on both sides to make peace

By James Buxton in Rome

THE POPE has sent telegrams to both sides calling for an immediate halt to the fighting, and appears to be leaving as late as possible the decision on whether or not to go ahead with his visit to Britain, due to start on Friday.

The official Italian reaction to the British landings on the Falkland Islands has been to reiterate its calls for a cease-fire, and President Sandro Pertini has sent a personal appeal to Sr Javier Perez de Cuéllar, Secretary-General of the UN, to press on with his peace-making efforts.

But the stance adopted by Sig Giovanni Spadolini's Government, and by Sig. Emilio Colombo, the Foreign Minister, stressing the UN resolution that calls for Argentine withdrawal, indicated serious dissent within the Government on the issue.

Pope John Paul II made another emotional appeal for peace and a halt to bloodshed in St Peter's Square yesterday. On Saturday he sent telegrams to Mrs Margaret Thatcher and President Leopold Galtieri, the Argentine President, calling for an immediate cessation of hostilities.

It would clearly undermine these appeals for peace were he to cancel at this stage his visit to Britain. On Saturday, he indicated that the decision whether or not to go ahead with his visit depended on his hosts, the Catholic bishops of England, Scotland and Wales. He said he could only postpone his visit, not cancel it.

He has told Argentine cardinals, who yesterday took part in a Papal Mass with their British counterparts, that he would be prepared to visit Argentina soon.

Sig Bettino Craxi, leader of the Socialist Party, said that Britain's actions "were exposing the entire west to very serious risks." Sig Flaminio Piccoli, chairman of the Christian Democrat Party, described the British resort to force as "an error." But two other parties in the ruling coalition have taken a conspicuously anti-Argentine line.

There seems no chance that Italy would re-impose the EEC trade sanctions against Argentina which, last week, under pressure from the Socialists and Christian Democrats, it decided not to renew. EEC Foreign Ministers were due to meet today to decide whether sanctions should be sustained beyond midnight.

Italian Press coverage of British landings has emphasised British losses, but also acknowledged British military effectiveness.

TIMETABLE OF THE LANDINGS

British troops strengthen foothold

AN ESTIMATED 5,000 British soldiers yesterday consolidated their foothold following Friday's landings in the San Carlos area of East Falkland.

As they dug in the following picture has emerged of the preparations and the assault Robert Hutchison, Defence Correspondent of the Press Association, writes:

Britain's battle fleet commanders feared that Argentine troops knew exactly where their amphibious landings were going to be staged three days before the Falklands "D-Day."

On Wednesday, small parties of Argentine soldiers were moved into defensive positions in the Port San Carlos area, selected as the assault site two weeks ago.

But Admiral Sandy Woodward, the Task Force commander, and the amphibious landings chief, Brig Julian Thompson, decided not to attack these positions, to avoid the risk of mines and booby traps being *laid in the area later by the occupation forces.*

The time-table for the landing went as follows:

Wednesday: Troops move to assault ships to prepare for the landings. A Sea King helicopter carrying 27 SAS soldiers is lost in an accident as they transfer from one ship to another. Nine men are rescued but 19, plus a marine and a pilot, are lost.

Diversionary attacks are begun by special forces in the southern portion of East Falkland and on the west island, with the aim of misleading the Argentines about the location of the invasion.

British warships bombard Mare Harbour in the south of West Falkland. The bombardment carries on throughout the night and into the next day.

Thursday: Sea Harrier and RAF Harrier strikes are mounted in the same general area. By last night, the amphibious task group moves in from the eastern edge of the 200-mile total exclusion zone around the islands.

At midnight, as the ships turn into Falkland Sound, parties of Royal Marine Commandos, landed previously, move in to attack Argentine positions in the San Carlos area.

Friday 12.30 am: A frigate puts down concentrated gunfire at Fanning Head, with "devastating and telling affects" on a position held by between 30 and 40 Argentine soldiers.

As the barrage lifts, Royal Marines storm in. A fire-fight follows but the British eject the Argentines, who flee north. Nine prisoners are left in British hands.

In a second attack, in the Goose Green and Darwin area *further south* where 1,500 Argentines are based, Royal Marines shoot down a Pucara light aircraft and blast several fuel and ammunition dumps.

Friday 2 am: Three simultaneous landings by Royal Marines and Paratroops on two beaches at San Carlos settlement and Ajax Bay, are met by reconnaissance troops, previously landed, to guide them to their objectives.

These assaults are unopposed and the troops, armed with Blowpipe shoulder-fired anti-aircraft missiles, move up onto high ground and dig into defensive positions.

A weak Argentine company position is overrun at Port San Carlos settlement and they flee eastwards, but not before they shoot down two Navy Gazelle reconnaisance helicopters with their own British-made Blowpipe missiles.

The two British forces link up with those at Fanning Head.

Friday 7 am. Amphibious forces continue to be ferried in by landing craft.

Friday 10 am. The first of at least three waves of Argentine fighter bomber attacks are mounted from mainland bases at Rio Gallegos and Ushuaia.

The first strike, after fighting through combat air patrols mounted by Sea Harriers from the carriers Invincible and Hermes 100 miles to the north, hits the frigates and destroyers patrolling Falkland Sound.

Twelve high-performance jets, Mirage Daggers and Skyhawks, crash into the sea.

Bombs are dropped all around the amphibious ships in Port San Carlos but the attackers have little time to co-ordinate their attacks.

In Falkland Sound, some five-to-10 miles wide at this point, the attackers have more space to manoeuvre and come in fast at low-level.

The Type 21 Frigate HMS Ardent is hit by two Italian-built Aermachi MB339 jets, based in the Falklands, and burns furiously. A Leander class frigate is also bombed and seriously damaged. A destroyer takes a 1,000 lb bomb through her engine room, but it fails to explode.

Two other frigates are damaged but they are still operational and continue to fire salvo after salvo of missiles.

The air attacks continue throughout the day with some 40 sorties mounted by Argentine aircraft, involving between 28 and 30 aircraft. Some jets return to their bases on the mainland to refuel and re-arm and return in the second and third waves.

Four Skyhawks heading for base are chased by the two Sea Harriers which fire their Sidewinder missiles and bring down two.

The Canberra and the other merchant ships in the Sound seem to be special targets, but all escape damage. Two raiders are blasted by Sea Wolf close-range missiles.

A Mirage falls into Port Carlos water, its wings laden with 500lb bombs.

Royal Marines still in position on Fanning Head open fire with their 7.62 mm machine gun. An engine of one attacker catches fire, and the aircraft plunges into the mountainside.

As Scorpion tanks from the Blues and Royals head inland to protect the seven-by-one-and-a-half-mile beach head, RAF G3 Harriers strike at targets at Two Sister's, west of Stanley.

They destroy two helicopters —a Chinook and a Puma—on the ground. But one Harrier is apparently shot down.

By the end of the day, the Argentines have lost nine Mirage Dagger jets, five Skyhawks, two Pucara ground attack turbo-prop aircraft and four helicopters.

First British reports indicate there are three dead, two missing and 27 wounded in the landing and 20 missing and 30 injured in the attack on the Ardent.

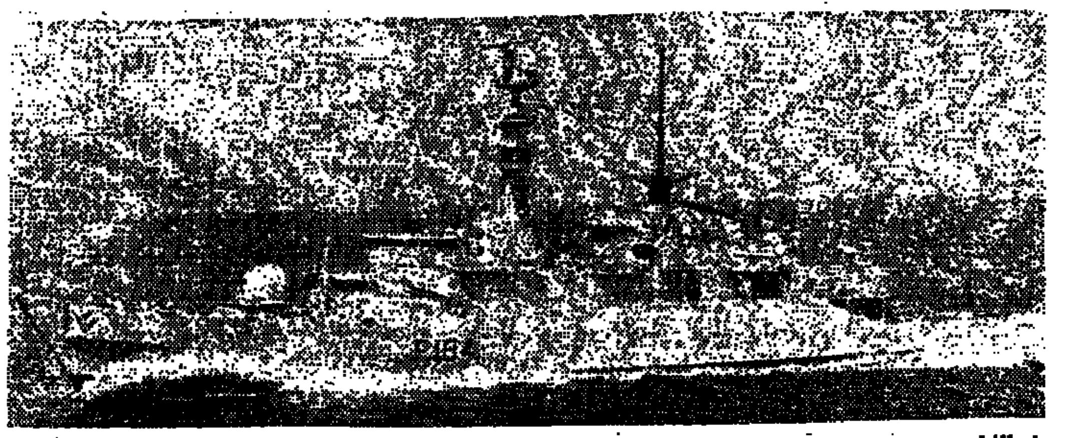
There are no further details of casualties in the rest of the fleet.

Friday evening: HMS Ardent sinks after a long fight to contain fires. Throughout the night, the merchant ships and the larger amphibious units are pulled back eastward out of range of expected attack, their task completed.

Saturday: The predicted massive air attack does not materialise at dawn.

More and more equipment is ferried into the beachhead: 105 mm howitzers are flown in, slung beneath helicopters, and Rapier anti-aircraft missile batteries are set up hidden among the hills.

The British policy now is to entice the Argentines out of Port Stanley, where they have fortified many of the houses.



HMS Ardent, which was attacked and sunk by Argentine jets. Twenty-two men were killed in the attack, and another 30 were injured.

U.S. closely watches Harrier performance

WASHINGTON — The performance of Britain's Harrier aircraft in the Falklands fighting is being closely noted by the United States, which plans to buy 340 advanced models of the jump-jets for its Marine Corps.

The corps already has some of an older type of Harrier. Terms were agreed last August for Anglo-U.S. manufacture of the new model, the first of which will be delivered next year.

But the U.S. Navy remains opposed to purchase of the aircraft for its carrier fleet, saying the Harrier's range is too short and its bomb-load too small.

During the 1970s, the Marines bought 110 of the Harriers, which can take off and land vertically. By February 1978, 28 of these had crashed. The Marines said most of the crashes were caused by pilot error.

Since the Falklands fighting began, carrier-based Harriers have been in the fore-front of British attacks against Argentine-controlled air-strips on the islands as well as in dogfights with Argentina's land-based Air Force.

The Marines would use the Harrier as air support for ground assaults, and so are vey interested in how it performs now that British troops have landed on the islands.

Senior U.S. naval officers say that, until now, the Falklands fighting has shown the need for large aircraft-carriers, as against the small types used by the British.

Following the destruction of the British destroyer Sheffield by a single Argentine missile, navy officials here say the U.S. will review defences on its own ships to make it less likely that they would suffer a similar fate. Reuter

Washington's 'mistake'

ARGENTINA'S Foreign Minister, Sr Nicanor Costa Mendez, has said that the U.S. made a big mistake in its approach to the Falklands crisis and will pay for it for a long time, AP reports from Paris.

Sr Costa Mendez, in an interview with Figaro Magazine, said the U.S. and Britain wanted to maintain the international *status quo*, and anything that disrupts that, provokes from them a political reaction that goes beyond any question of sovereignty.

"I think the North Americans have committeed a grave error that they are in the process of paying for it, and that they will pay for it for many years," Sr Costa Mendez went on.

Shipowners seeking higher insurance

BY ANDREW FISHER, SHIPPING CORRESPONDENT

BRITISH companies with vessels requisitioned to accompany the Falklands task force want the Government to agree to higher insurance values in case of war damage or destruction.

Talks by the companies, with P & O a major participant, are continuing with the Department of Trade on how compensation would be paid if ships suffered from hostilities.

So far, the Government has paid just over £30m in requisition, charter, and other costs to owners. About 50 ships have been called up during the crisis, though some have been returned. P & O's Canberra took a key role in Friday's landing.

The Canberra is P & O's cruise flagship. Its insured value was £10m, but P & O has since put this up to around £35m.

That is equivalent to the cost of a second-hand replacement, if necessary. To build a new ship of the same type would cost around £150m. The older Uganda, now a hospital ship, has had its insurance value lifted from £3.5m to some £20m.

If these ships are destroyed by storms or rocks, P & O's increased insurance would cover the cost. But enemy damage would have to be met by the Government under the 1952 Marine and Aviation (War Risks) Act.

Officials are studying this to see how it would be applied. The question of vessels' insurance values and which department would have to foot compensation bills is still under discussion.

P & O said its ships were insured for the lower sums before the crisis because they would not have been sent into risk areas while on cruises.

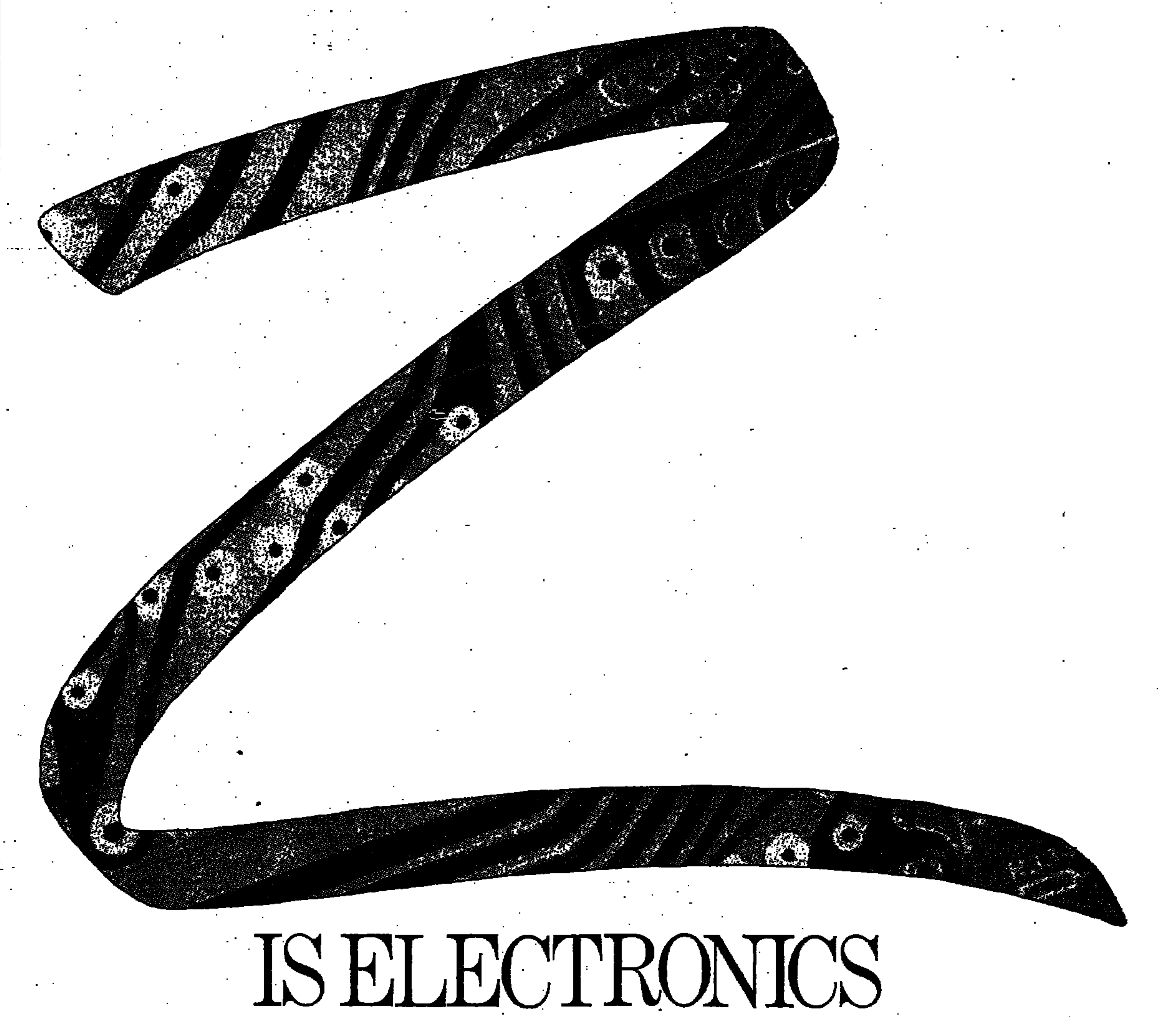
The Government has argued that a more realistic valuation for the Canberra would lie not far above the original insured sum. Cunard's QE2, now on its way to the islands, also features in the discussions with companies.

U.S. embassy numbers cut

The U.S. is sharply reducing the number of officials and dependants at its embassy in Buenos Aires because of tensions with Argentine over the Falkland Islands war, AP reports from Washington.

The State Department said the temporary removal of certain "non-essential" personnel began several weeks ago

At the beginning of the month there were 79 U.S. staff members at the embassy and about 100 employees.



House joins battle over U.S. budget proposals

BY ANATOLE KALETSKY IN WASHINGTON

THE U.S. Senate passed a budget resolution late on Friday calling for a record deficit of $116bn (£63.7bn) in 1983. President Ronald Reagan, speaking on radio on Saturday, endorsed the resolution and urged the House of Representatives to support a broadly similar plan put forward by the Republican minority leadership in the House.

The House will join battle this week on no less than seven different budget proposals and nearly 70 substantive amendments. The Republican plan, now backed by the President, does not have the wholehearted support even of the Republican minority in the House, but has some adherents among the conservative Democrats from southern states. Mr Reagan spent several hours on the telephone at the weekend, trying to win over other conservative Democrats and wavering Republicans.

Meanwhile, the Democratic Party establishment, led by Mr Tip O'Neill, the Speaker of the House, has launched an all-out attack on Mr Reagan and the Republican Party, insisting that their plan will hit especially hard the elderly, who are now regarded as a particularly powerful special-interest group in Washington.

The House Republican budget plan differs from the resolution approved in the Senate in that it calls for $23bn in cuts over three years in Medicare, the medical assistance programme, for the elderly. This has enabled the House Republicans to show a deficit of less than $110bn for 1983.

The conservative Democrats who support the plan said that they would not back a budget with a greater deficit. But many Republican Congressmen may find it impossible to vote for a plan to cut Medicare in an election year. Last week the Republican leadership in the Senate was forced to abandon hope of cutting the social security pension programme for the same reason.

Mr Reagan: an urgent bid for support

Zimbabwe to end dual citizenship

BY TONY HAWKINS IN HARARE

A BILL to remove the provision of the Lancaster House constitution for Zimbabwe which allows for dual citizenship and passports is to be presented to Parliament in Harare next month.

The draft Bill was published on Friday. As long ago as 1980, when the Lancaster House constitution was less than a year old, the then Minister of Home Affairs, Mr Joshua Nkomo, promised repeal of the provision which the Nationalist parties had opposed during the independence negotiations.

There is no official figure for the number of Zimbabweans holding British or South African passports and citizenship, but one estimate suggests that there are at least 80,000 British passport holders and more than 20,000 South African passport holders.

There is concern in business circles that the repeal of the dual citizen provision will add to the pressures making for high levels of emigration of skilled and experienced whites.

Shia Moslems found guilty in Bahrain

By Mary Frings in Bahrain

Seventy-three young Shia Moslems have been found guilty in Bahrain of complicity in last December's abortive coup. But the three high court judges led by Sheikh Khalifa bin-Mohammed Al-Khalifa, a member of the state's ruling family, rejected the prosecution's demand for the death penalty and handed out sentences ranging from life imprisonment to seven years.

Child deaths inquiry

BY OUR OTTAWA CORRESPONDENT

CANADA'S MEDICAL establishment has been shaken and the fate of Toronto's 107-year-old Hospital for Sick Children is in question after the disclosure that the deaths of 43 infants are being investigated by police.

The investigation was announced by Ontario's provincial Attorney-General, Mr Roy McMurty, on May 21, after a judge dismissed murder charges concerning four of the deaths, all involving infants up to one-year-old.

Charges had been laid against a nurse who worked in the cardiac ward. She was alleged to have administered fatal overdoses of a powerful heart stimulant, called digoxin, to the four infants.

At the preliminary hearing, evidence was introduced about 19 other "similar fact deaths" in which infants had died unexpectedly in the cardiac ward, over the nine-months between July 1980, and March 1981.

Judge David Vanek dismissed the charges, saying the evidence was circumstantial at best. He said that there was a possibility the deaths were continuing, although the method had changed and they were occurring in another ward.

Weinberger 'lip service' attacked by Begin

By David Lennon in Tel Aviv

ISRAEL'S Prime Minister, Mr Menahem Begin, yesterday accused Mr Caspar Weinberger, the U.S. Secretary of Defence, of only paying lip service to the maintenance of Israel's military edge in the Middle East while at the same time said Mr Begin, he was advocating the sale of sophisticated weapons to Jordan which would use them against Israel.

The Prime Minister's statement, which was approved by the Cabinet, is part of a concerted campaign being launched by Israel to try to block U.S. plans to sell more aircraft and missiles to Jordan. Crown Prince Hassan of Jordan is due in Washington this week for continued arms talks.

The Israeli Defence Minister, Mr Ariel Sharon, who is also on a visit to the U.S., is expected to raise the Jordan arms sales with Mr Weinberger during their planned meeting in Washington. In the meantime, he has been speaking at private gatherings and giving interviews about Israel's fears over the supply of more arms to Jordan.

In yesterday's statement, Mr Begin accused Mr Weinberger of having made a misleading statement when he said recently that Jordan needed the weapons because it feared being squeezed between Syria and Iran. Mr Begin pointed out that Iran is not a neighbour of Jordan.

"The reason which moves Jordan to ask for modern weapons from the U.S. is neither Syria nor Iran but rather Israel," Mr Begin said.

He added: "It is true that lip service has again been paid to ensuring the so-called edge of Israel, but how can it be maintained if only one square mile separates Jordan, armed with the quickest, most sophisticated tools of war, from the centres of Jewish population?"

Arming Jordan and Iraq "creates a direct and present danger to the Jewish state and to peace," Mr Begin said.

MINISTERIAL MEETING OF OPEC

Unity jarred by Iran abrasiveness

BY RICHARD JOHNS IN QUITO

THE UNITY of the Organisation of Petroleum Exporting Countries has been badly United Arab Oil Emirates policy and abrasive performance at the ministerial conference of the organisation in the Ecuadorian capital, senior delegates privately conceded as they dispersed at the weekend.

Public attempts to gloss over the sharp differences behind closed doors could not disguise the feeling that Iran has gravely undermined the producers' association at one of the most critical periods in its history.

Dissension between Iran and other members has clouded the satisfaction with the improvement of market prospects, not least as a result of the psychological impact of the agreement two months ago on a production programme, and with the recovery of Nigerian production to something like the minimum desired level of 1.3m barrels a day (b/d).

On this front, the ministerial monitoring committee—chaired by Dr Mana al Otaiba, the Minister—is to meet again towards the end of June, and thereafter monthly. The 17.5m b/d ceiling on overall output and the production programme worked out in March will remain in force for the time being.

Particularly serious for the organisation's solidarity, was the verbal attack on Friday afternoon by Mr Mohammed Garazi, Iranian Oil Minister, on Sheikh Ahmed Zaki Yamani, his Saudi counterpart, who left the conference chamber prematurely in protest.

Delegates were also shocked by fierce Iranian personal criticism — to do with the proposed Institute for Energy Studies, to be based at Oxford and financed by Opec — on Dr Fadhil al Chalabi, assistant Secretary-General of Opec, and on Dr Robert Mabro of St Anthony's College, who was largely responsible for the plan.

In the event, it proved impossible to fulfil the wish of all other members, except Iraq, that the contentious issue of Iran's rate of production and its price-discounting should be ignored, if possible. The Iranian Minister was uncompromising in saying openly that Iran's output was running at a rate of 2m b/d, compared with the allocation of 1.2m b/d given to it at the extraordinary ministerial conference in Vienna just over two months ago.

Most senior delegates reckoned the actual Iranian level to be more like 1.8m b/d. The doubts were evidently the reason for the spread of 16.5m to 16.8m b/d given by Dr Marc Nan Nguema, Opec's Secretary-General, for collective output.

The fact that this was below the ceiling of 17.5m b/d was accounted for by the drop in Saudi output to rather less than 6.5m b/d, compared with the Kingdom's self-imposed limit of 7m b/d, and by the enforced loss to Iraq of 500,000 b/d capacity as the result of Syria's decision to stop exports through the pipeline system to Mediterranean terminals which crosses its territory. Also, Libyan production is believed to be substantially less than its quota of 750,000 b/d.

Mrs Gandhi in trouble after state polls

BY K. K. SHARMA IN NEW DELHI

A PERIOD of political instability is likely in the Indian states of Haryana, Himachal Pradesh and Kerala after Mrs Indira Gandhi's Congress (I) party emerged from the May 19 elections without absolute majorities.

In Haryana, in the north, the Congress (I) party has been asked to form the state government, and Mrs Gandhi's nominee, Mr Bhajan Lal, has been sworn in as chief minister.

In the hill state of Himachal Pradesh, the Congress (I) emerged as the single largest party and is expected to seek to form the government there also.

In the southern state of Kerala, the coalition led by the Congress (I) won a tenuous majority over a Marxist-led left-wing front. A ministry led by Congress (I) is expected to be sworn in today, but is unlikely to be stable because of the faltering support of some of its partners.

Only in West Bengal, where the Marxist-led combination of left-wing parties won a two-thirds majority, does a stable government seem certain.

The Marxists are assured of a safe, second five-year spell of power in West Bengal, the only state with a decisive result from the elections in four Indian states last week.

Although Mrs Gandhi's Congress (I) has the advantage of being the largest single party in both Haryana and Himachal Pradesh, it is expected to form governments in the two states on the basis that it should get the first chance to demonstrate majority support in the legislatures with the help of a large number of independents.

This will lead to uncertainty and to horse-trading as the Congress (I) and its opponents try to win the support of independents.

If Congress (I) governments in Haryana and Himachal fail to achieve majorities in about a month, when the first sessions of their legislatures are held, it is likely that President's rule (government from New Delhi) will be imposed and fresh elections held. The same could be the case in Kerala, although the process is expected to take longer there.

Mrs Gandhi's Congress (I) also lost four of the seven parliamentary by-elections held. Added to the debilitation of the party's strength in Haryana and Himachal Pradesh, the Prime Minister has suffered a big setback in what was the first major test of her popularity since she returned to power in New Delhi in January, 1980.

There is no immediate threat to her position as Prime Minister since her party has a two-thirds majority in parliament and general elections are not due until 1985.

Default 'would slash Polish exports'

BY CHRISTOPHER BOBINSKI IN WARSAW

POLAND'S annual exports to the West would fall to a value of $3bn-$3.5bn (£1.67bn-£1.9bn) if the West declares the country in default, a Polish economist, Prof. Mieczislaw Nasilowski, has predicted.

Prof. Nasilowski is a member of the autonomous Consultative Economic Council, which advises the Government. He suggests that imports would stay at about the same level if Poland's assets abroad were seized and trade had to be conducted through intermediaries.

The figures came in a recent lecture to the council, published in the current issue of the weekly magazine Polikya. This is the first figure given to the official Press for the effects on Poland's foreign trade of the country being declared in default.

Prof Nasilowski said: "If neither side declares Poland bankrupt . . . despite the current credit restraints, exports and imports are likely to reach a level of about $5bn."

Meanwhile trade figures for the first four months of the year show a surplus of some $525m (£287m), which has gone mainly on interest repayments due last year. Imports were worth $1.15 bn (£639m), while exports to the end of April were worth $1.675bn (£915m).

Also in a recent newspaper interview, Mr Tadeusz Nestorowicz, the Foreign Trade Minister, warned of the inflationary effects of a further devaluation of the Polish zloty against Western currencies. Industrial managers are pressing for a 50 to 60 per cent devaluation of the present exchange rate of 80 zloties to the U.S. dollar. Mr Nestorowicz pointed out, however, that 7 per cent of Poland's hard currency exports are sold at a profit.

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E. Europe's terms of trade with Soviet Union worsen

BY DAVID BUCHAN

EASTERN EUROPE'S terms of trade with the Soviet Union worsened by 6 per cent in 1981 and are likely to deteriorate by a further 6-7 per cent this year.

The reason is that Soviet export prices are rising faster than those in the rest of Comecon, according to a new study by Wharton Econometric Forecasting Associates (WEFA).

The report by the U.S.-based consultant group sheds additional light on a recent meeting of East European economists, who complained that deteriorating terms of trade with the Soviet Union were causing their countries "distinct harm" and slower growth.

The economists' criticism surfaced in a Prague pubication, and it may be no coincidence that, according to WEFA calculations, Czechoslovakia, along with East Germany, has been affected most by decline in the terms of trade with the Soviet Union.

By the end of this year, export prices by the six East European members of Comecon will have risen 16.8 per cent since 1980, according to WEFA estimates.

But the prices of what they import from the Soviet Union will have risen 33 per cent. Taking 1980 as a base of 100, East Europe's terms of trade with the Soviet Union—the relation of export to import prices—dropped to 94 last year and to 87.8 this year.

But the Soviet Union, for various reasons, has not fully used this improvement in the terms of its trade with its allies. It is cutting the volume of its oil exports at preferential prices to some Comecon partners, and it has not accelerated shipment to Poland as fast as it earlier promised.

But it has not made a general cut in the volume of its shipments to Eastern Europe or required Eastern Europe to boost exports to the Soviet Union, perhaps for fear of placing too great an economic strain on their neighbours.

The result has been a marked increase in the Soviet trade surplus with Eastern Europe, from roubles 1.8bn (£1.38bn) in 1980 to a record roubles 3.1bn (£2.3bn) last year.

The new WEFA estimate is that, given a 6-7 per cent deterioration in East European trade terms this year, the Soviet trade surplus could rise to roubles 4.5bn in 1982. At some time, the Soviet Union is likely to want this imbalance reversed.

Eastern Europe exports mainly machinery, equipment and industrial consumer goods to the Soviet Union, and imports mostly fuels and raw materials which, inside Comecon at least, have been rising relatively faster in price.

The Comecon country least affected by this trend has been Romania, a significant oil producer. Oil is a relatively small share in its imports from the Soviet Union.

Soviet energy is still cheap for Comecon partners. Last year, Soviet oil was 70 per cent below world market prices and gas about 50 per cent below world prices.

But this is changing quickly as the Soviet Union is adjusting its oil prices in line with the 1979-80 world market price surges. This year the Soviet Union is expected to charge its Comecon partners some 29 per cent more for their oil.

Japan-EEC trade talks end in stalemate

By Brij Khindaria in Geneva

BILATERAL TALKS between Japan and the European Community have ended inconclusively in Geneva, with the Community no closer to persuading Tokyo to take effective measures to cut the EEC's trade deficit with Japan.

The two-day meeting last week was attended by almost 20 officials from five Japanese Ministries, but the Community received no assurances that Tokyo intends to work hard towards boosting imports from the EEC.

The talks were part of a dispute settlement procedure invoked by the Community under Article 23 of the General Agreement on Tariffs and Trade (Gatt). The article allows any Gatt member to seek redress through negotiations if another members' policies impair the benefits it can rightfully expect by belonging to Gatt.

The Community has asked Japan to take concrete measures to remove obstacles to the sale of European-made goods in Japan and to restrain its exports to the EEC.

The Japanese insisted that they were puzzled by the Community's demand, and they spent most of the two days in seeking clarifications.

Although unprecedented, the Community's complaint is being taken seriously by other Gatt members who will closely watch developments in the dispute.

If there is no satisfactory compromise, the Community will be free to ask Gatt's decision-taking council to appoint an arbitration panel.

The Community argues that Japan is using unfair trading practices not only because it may subsidise or aggressively promote exports, but also because Japanese companies, and consumers, are reluctant to buy European goods.

Fraser firm on trade initiative

BY MICHAEL THOMPSON-NOEL IN SYDNEY

SIR PHILLIP LYNCH, Australia's Minister for Industry and Commerce, has denied that a Federal government investigation into higher levels of protection for the Australian steel industry flatly contradicts Prime Minister Malcolm Fraser's call for international trade liberalisation.

The Prime Minister, when he met U.S. President Ronald Reagan and the Canadian and Japanese Prime Ministers last week, outlined plans for a freeze on current levels of international trade protection, long-term dismantling of trade barriers and the abolition of all export incentives.

At home, however, the Temporary Assistance Authority, as well as the Industrial Assistance Commission, are to examine calls for temporary assistance against rising steel imports, notably from Japan.

The investigation follows determined lobbying by BHP, Australia's largest company, and its subsidiary, John Lysaght Australia.

Criticism of the decision has come from the Australian Independent Steel Association. An official said the investigation of BHP's request "hardly sits well with Mr Fraser's pleas for lowering the levels of protection."

The Japan Iron and Steel Exporters' Association said last week that moves further to cosset the Australian steel industry were a "deplorable development."

Ironically, Mr Fraser's initiative has found its most enthusiastic response in Tokyo. There he met the Japanese Prime Minister Mr Zenko Suzuki, on Friday, and was told his proposals would be raised, in some form, at the Versailles Economic summit early next month.

Sir Phillip, formerly Deputy Leader of the ruling Australian Liberal Party, denied that the BHP reference went against the grain of Mr Fraser's trade initiative.

"The Prime Minister had not envisaged unilateral action by Australia in this matter," Sir Phillip said in Canberra.

"What was required was agreement by all the major parties concerned on the method and timing of implementation of the initiative put forward by the Prime Minister."

SHIPPING REPORT

Tanker rates rise slightly

BY ANDREW FISHER, SHIPPING CORRESPONDENT

SHIPOWNERS in the gloom-laden tanker market have been benefiting from the availability of cheaper crude oil from Iran which has pushed rates up slightly.

Despite problems of insurance and the risks of operating in the area, there has been no shortage of ships wanting to take on oil at Kharg Island.

Owners have managed to put pressure on charterers to shift rates up to Worldscale 25 for a 250,000-ton load from Kharg to Europe, noted Galbraith Wrightson. "But whether this revival will continue is not easy to forecast."

The London shipbroker noted that the amount of business concluded last week was quite large. Though rates were often disappointing, the number of vessels fixed from the Gulf and West Africa was further encouragement to owners who could have more cargoes from which to choose in the second half of 1982.

Major oil companies such as Shell, Exxon, Mobil, Elf and Gulf have all chartered vessels this month to Europe and North America. Gulf took two 100,000-ton cargoes at Worldscale 46.5 from West Africa to the U.S., while Shell and Exxon paid Worldscale 77.5 for 65-70,000 tons from Nigeria to Europe.

Galbraith said oil companies now appeared to have settled any price differences there may have been with their West African suppliers.

The dry cargo market remained dull last week. Denholm Coates reported that grain rates from the U.S. Gulf to Continental Europe were steady, but coal to Europe and Japan eased further.

China had cut a couple of dollars off the U.S. Gulf/China rate levels at $31 a ton, though the last business was done some weeks ago.

MEXICO'S NUCLEAR PROGRAMME

Big orders look elusive

BY WILLIAM CHISLETT IN MEXICO CITY

THE WORLD'S nuclear power industry has spent $280m (£155m) chasing a contract in Mexico, and companies fear that their efforts may have been in vain.

Mexico's new austerity, brought about by falling oil revenue and high public spending, is raising doubts about the viability of the Government's plan to install 20,000 MW of nuclear power by the year 2000.

This is more than double the country's present electricity output and is the most ambitious scheme in the world.

Officially the timetable has not been changed, despite the straitened circumstances. Officials from the Industry Ministry and the Federal Electricity Commission (CFE) have been reassuring the seven companies competing for the $30bn contract in current terms that no changes are envisaged.

The Government still plans to award the contract in September for the first stage of the programme to install 2,300 MW at a cost of over $2bn.

However, reservations about the plan are being expressed in private. "It would be economic suicide to go ahead now," said a Government official.

Mexico is wrestling with an unpopular stabilisation programme introduced after February's 40 per cent devaluation of the peso. High international interest rates have made Mexico's total external debt of $70bn to $80bn by the end of the year—a millstone around the country's neck.

This year's budget will be cut by 4.5 per cent.

There is also a greater realisation that Mexico's oil reserves, currently the world's fifth largest, are enormous and therefore there is no urgency to diversify energy sources.

The companies themselves and their allies in Mexico City's embassies prefer not to discuss the matter. If they do, it is only in hushed tones. Understandably, nobody wants to rock the boat when the prize is so tantalising.

Atomic Energy of Canada, Asea-ATM (Sweden) Combustion Engineering, U.S. General Electric and Westinghouse, Framatome (France) and Kraftwerk Union (West Germany) each submitted one tonne of specification documents and financing details in February at a cost of an estimated $40m each. Each company had to submit seven copies of the tender.

Each company's tender, which is large enough to fill a modest sized garage, is under lock and key in the CFE. The technical side of the tenders is being examined at the moment and soon seals on the boxes containing the financing details will be broken.

Mexico is being courted vigorously. President Francois Mitterrand, King Gustav of Sweden, Prime Minister Pierre Trudeau and Mr George Bush, the U.S. Vice-President, have all come to Mexico to try to enhance their country's prospects. The companies have set up lavish offices in Mexico City and no expense is spared in entertaining officials.

"We don't mind if we do not win," said one outspoken diplomat, "although naturally we hope we do. What we will raise hell about is if Mexico cancels the programme. If this happens, the country will lose so much prestige abroad that no company will want to compete again if Mexico resurrects the plan."

Mexico faces three options. It can go ahead as originally planned. After all, by the time the contract is drawn up it will be 1984. Generous grace periods on the massive financing could be negotiated to ease the burden on the balance of payments.

Secondly, the programme could be scrapped, amidst an international furore.

Lastly, and probably most likely, the contract can be awarded to one or more companies and then the plan put on ice.

However, the winning company would expect a contract to be drawn up or at the very least a letter of intent.

Meanwhile, there is a widespread feeling in the nuclear industry that Atomic Energy of Canada has the inside track.

World Economic Indicators

UNEMPLOYMENT

		Apr. '82	Mar. '82	Feb. '82	Apr. '81
UK	000's	3,007.7	2,992.3	3,044.9	2,525.2
	%	12.6	12.5	12.8	10.6
U.S.	000's	10,307.0	9,854.0	9,575.0	7,899.0
	%	9.4	9.0	8.8	7.3
		Mar. '82	Feb. '82	Jan. '82	Mar. '81
W. Germany	000's	1,811.4	1,935.3	1,949.8	1,210.1
	%	6.9	7.4	7.5	4.6
France	000's	1,964.5	2,003.8	2,034.0	1,657.2
	%	8.7	8.8	9.0	7.3
Italy	000's	2,306.1	2,304.4	2,290.2	1,938.0
	%	10.4	10.3	10.3	8.7
Netherlands	000's	486.1	492.8	488.3	343.9
	%	9.3	9.5	9.4	6.6
Belgium	000's	523.7	529.7	530.3	424.9
	%	9.3	9.5	9.4	6.6
		Jan. '82	Dec. '81	Nov. '81	Jan. '81
Japan	000's	1,310.0	1,190.0	1,210.0	1,230.0
	%	2.3	2.1	2.1	2.1

Source (except U.S. and Japan): Eurostats

Jobless total 'likely to linger at 3m'

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

UNEMPLOYMENT will remain at more than 3m until the end of the decade and the prospect of alternative policies greatly reducing the total are poor, says a Warwick University report, published today.

The report is by the university's institute for employment research, set up seven years ago with a grant from the Manpower Services Commission. The bleak outlook is based on an extremely detailed analysis of job prospects in 11 different regions and 49 types of employment.

Productivity

It suggests total output will grow at an average of little under 2 per cent a year until 1990. But since productivity will be increasing at about the same rate, a very small increase only in the number of jobs will result.

However, this increase will be no more than offset by the rising number of people available for work in the period. As a result, unemployment is expected to climb to a peak of 3.2m by 1983 and to remain at about that level until 1990.

Forecast

The forecast is based on the assumption that the next government will relax fiscal and monetary policies somewhat, but will not embark on a major U-turn.

However, the 147-page study also analyses the expected effects of three alternative strategies. It concludes that the size of the "employment gap" is now so large that policies capable in more buoyant periods of making a substantial proportionate reduction in unemployment now offer relatively minor relief.

"Even import controls and incomes policies, once advocated as universal panaceas, are not enough. Neither offers a credible strategy for halving unemployment by 1990."

The three alternative strategies analysed are:

● Abolition of National Insurance surcharge in 1986 and a 30 per cent cut in the exchange rate by 1990. This would cut unemployment by 455,000 by 1990 but at the cost of a significant increase in inflation and a reduction of real incomes.

Import quotas

● Import quotas to cut imports of manufactured goods by 5 per cent in 1985 and 10 per cent after 1986. This would result in a cut of 490,000 unemployed and somewhat reduce inflation.

● A tough incomes policy which held wage increases down to 6 per cent in 1985 tapering to 3.5 per cent in 1990. This would cut unemployment by 150,000 in 1990 and make a substantial impact on inflation.

The report is generally rather pessimistic about other measures including subsidies, investment incentives and special schemes to reduce unemployment. It says these ideas could only help limit the impact of unemployment.

London one of cheapest business centres

By Lisa Wood

THE cost of living in London is still less than in the European business centres of Frankfurt, Geneva, The Hague and Vienna, according to an annual survey.

Comparison

However, it compares unfavourably with U.S. cities such as New York, Houston and Washington, as well as European cities including Brussels, Paris and Rome.

The survey, International Transfers 1982, compares the cost of living in 26 cities in Europe, the U.S. and the Middle East to aid international companies in relocating employees abroad.

Management Centre Europe, which compiled the survey, also compared the cost of employing an executive, based on a comparison of salary, secretary's salary, office accommodation and car costs. London comes out as one of the cheapest business centres, in spite of office rental costs more than three times the average in Europe.

Total costs

Geneva remains the most expensive overall. New York, Paris and Frankfurt have the highest costs for an executive.

Copies available from Management Centre Europe, 4, Avenue des Arts, 1040 Brussels, Belgium.

Print industry training proposals

BY ALAN PIKE, INDUSTRIAL CORRESPONDENT

AGREEMEN has been reached between the British Printing Industries Federation and the National Graphical Association on the abolition of time-served apprenticeships in the printing industry.

Under the proposed new arrangements all trainees will receive a single pay rate throughout their training, and qualify for craft status — and pay—whenever they achieve specified standards.

The agreement is a significant step forward for the cause of industrial training reform in one of the traditional strongholds of time-served apprenticeship. It will operate from August, 1983, provided it is ratified by the membership of the two organisations.

Mr Mike Lithgow, BPIF head of industrial relations, said: "We reckon we are ahead of all other industries on this. We believe firmly that we are in the mainstream of forward progress on industrial training."

The new proposals are designed to improve the flow of apprentices and make it easier for existing NGA members to retrain as technology changes.

Agreement has been reached in spite of the fact that the Printing and Publishing Industry Training Board has been abolished and the TUC is urging affiliated unions not to co-operate with alternative voluntary training arrangements.

This has apparently been possible because the NGA and BPIF began discussions on the reorganisation 18 months ago — before the abolition of training boards and other aspects of training became a political issue.

TUC opposition to the abolition of the statutory board is, however, preventing the printing employers from making similar progress on the reform of apprenticeship with the other large print union, the Society of Graphical and Allied Trades.

Under the new proposals management and union representatives in individual companies will determine their training requirements in an annually agreed manpower plan. National training objectives will be determined by a management-union joint training council.

It is expected that a high proportion of new entrant trainees are likely to complete their training in about two years — half the length of existing time-served apprenticeships.

● Tests to measure the standard achieved by trainees have been introduced by the Construction Industry Training Board. Employers are eligible for £200 grants for trainees who pass the tests at each of two levels.

Call for progress-chasing by Ministers

BY LISA WOOD

GOVERNMENT MINISTERS would do well to set aside time each week to check that key schemes to aid regional industry are giving "value for money," a report published by the Federation of Civil Engineering Contractors (FCEC) advised yesterday.

It was commenting on a federation-commissioned report which calls for a progress-chasing system to monitor developments in particular areas to ensure there are no infrastructure "bottlenecks" delaying industrial regeneration.

The report was commissioned from Mr David Hencke, a specialist reporter on The Guardian.

Mr Hencke looked at five areas in Britain to assess their construction needs. He took into account claims that "the motorway programme is largely complete, that the need for other major infrastructure programmes is similarly exhausted and that, therefore, the output of the construction industry will not recover" in the forseable future."

While not claiming that the five areas were necessarily representative of the whole country, he concluded: "There are, in fact, huge and exciting possibilities for the regeneration of our industrial infrastructure which would not only provide worthwhile new jobs now, but would also lay the foundations for greatly increased long-term employment prospects."

The five areas covered were Barrow-in-Furness; Merseyside; Swansea, Llanelli and Port Talbot; Glasgow and its surrounding boroughs, and the Wakefield district of West Yorkshire.

On Merseyside, the report said a careful capital investment programme could help to reverse the area's deterioration problems.

Mr Hencke said: "Communications could benefit from new investment in road, rail and air. There is also an urgent need to speed up the plans to clean up the Mersey, redevelop Docklands and investigate the Mersey barrage scheme."

A specific recommendation included the extension of the Liverpool enterprise zone or a small financial boost from the Government to allow the terminal and associated developments at Liverpool Airport to go ahead. At present, the projects were holding fire because they lacked a catalyst, said Mr Hencke.

The federation said that while the views in the report were Mr Hencke's own, it was in broad agreement with them, particularly with the suggestion that "half an hour a week at the Department of Environment and Department of Transport in Marsham Street could be spent by ministers checking that key schemes to help industry—are proceeding well to ensure a little better value for money."

New Life for Old Cities: A Programme of New Public Investment. Available from FCEC.

Companies 'too free in money markets'

By David Marsh

CONCERN among bankers at the freedom enjoyed by industrial companies on the foreign exchange markets was expressed at the annual meeting in London of the International Forex Association, which ended at the weekend.

Herr Friedrich Menzel, of Citibank's Frankfurt branch, said companies could move around large amounts of money, were largely uncontrolled by central banks and could add to the volatility on currency markets.

Herr Menzel told the conference, which brought together 2,000 currency dealers from around the world: "Many corporations today have large dealing rooms where they do not just buy and sell currencies for purely commercial purposes but which they actually use as an in-house bank, with exchange arbitrage which they regard as a profit centre."

In his presentation, given on Friday at a closed session but released at the weekend, Herr Menzel criticised the U.S. Government's non-intervention policies towards the dollar.

Currency intervention was ineffective to stabilise exchange rates if it was not backed up by other economic measures, he said. But this was not a justification for a "hands-off" policy.

"I think that central banks have to participate in the exchange markets, if only to be prepared when decisive action is required."

He said the monetarist school of thinking had had its way in the U.S. Treasury since March, 1981. According to this theory, central banks' interference in the markets itself contributed to currency turmoil. This would imply, he said, that their withdrawal would return stability to the markets.

"This may be so, but exchange rates went on fluctuating after this decision just as they did before, if not even more.

"The more I personally watch out daily fluctuations, the more I come to the conclusion that only close co-operation by the major central banks would help to stabilise exchange markets and to avoid the worst fluctuations," Herr Menzel said.

Government urged to end divorce payments to adults

BY LISA WOOD

THE Government has been urged to "stop dragging its heels" and to change the divorce law to end all maintenance payments to adults.

The Campaign for Justice in Divorce said the alternative to ending adult maintenance payment was a return to a strictly fault-based divorce law under which only the "guilty" would pay. But, said the campaign, the ending of all maintenance payments, except for children, was the only solution.

The campaign, in its latest publication, said that payments of maintenance, by men to ex-wives and in a minority of cases by women to less prosperous ex-husbands, could not be justified under present divorce laws where fault by marriage partners was not considered.

The publication said: "Of course people feel sympathetic towards the fate of some ex-wives who may face a struggle to support themselves.

"But the presumption of their innocence in all cases is a monstrous injustice to ex-husbands.

"Women cannot expect to avail themselves of no-fault divorce on demand without also accepting the obligation to be self-supporting except where there are young children."

Welsh Labour conference seeks ban on Trotskyists

BY ROBIN REEVES, WELSH CORRESPONDENT

IN A MOVE which could undermine the fragile truce between Labour's Left and Right wings, the Welsh Labour Party's annual conference called at the weekend for the proscribing of Militant supporters and the expulsion of Trotskyists and similar activists.

Meeting in Swansea—one of the areas selected for a special party investigation into the activities of the Marxist Militant Tendency — the conference decided by a narrow majority to urge the executive to take this action "to restore to the Labour Party its traditional image and confidence of the electorate."

Delegates' thinking was clearly influenced by Labour's poor showing in the local elections in England and Scotland and the party's poor standing in the opinion polls. They ignored Left-wing appeals to uphold the truce informally agreed at Bishop Stortford last January.

Mr Alan Williams, Swansea MP, said the Left had started the witchhunt. Militant supporters and others could not be allowed to remain in the party if Labour was to remain credible and not be obliterated at the next general election.

Earthly matters behind the pastoral visit

Gareth Griffiths reports on the Pope's answer to commerce's prayer

THE POPE'S decision that he is likely to go ahead with his visit to England, Scotland and Wales at the end of this week will not only please Britain's 6m Roman Catholics but will also be a fillip for many of the 75 companies supplying the official papal memorabilia.

It will also provide relief for the Roman Catholic Church, which would be the main financial loser from the visit's cancellation.

So far sales of souvenirs associated with the Pope's visit have been less than expected, mainly because of the Falklands crisis.

Many companies have cut back or stopped production of souvenirs and those who hoped for a market similar to that for last year's royal wedding have been disappointed.

Even in Britain's most Catholic areas, such as Merseyside and Glasgow, sales have been well down. The cancellation would have hit manufacturers badly, particularly as half of them are not insured against cancellation.

Most of the souvenir manufacturers are small companies. The largest manufacturer on the official list produced by the Catholic Information Services office in London is the Royal Worcester Group.

One of the smaller companies on the list is Tyrella Glass in Alton, Hants. The company employs nine part-time workers and the bulk of its business is in company commemorative items. Its range includes tumblers and paperweights priced from £1 to £180. The company was hoping to sell £100,000 worth of goods but so far it has only sold about £20,000 worth.

Mr Bryce Beatson, the chairman of Finchwold Designs, a Sheffield company which makes metal busts, says his company stands to lose between £30,000 and £40,000 because of the poor sales of papal memorabilia. Ironically, the company started making souvenirs to diversify from the depressed cutlery industry. Production started in February and finished on Tuesday and covered between 15,000 and 16,000 articles with a retail value of about £150,000.

"We got figures from International Management (the marketing company handling the papal memorabilia licensing) about the numbers attending the masses and we took a guesstimate on demand. We decided to do a direct mail order campaign and very little wholesale, but we had a fairly slow response with orders worth about £4,000 to £5,000," says Mr Beatson.

Companies which produce souvenirs tend to regard them as a spin-off from their main business. But profit margins can be high. W. H. Smith, for example, says souvenir profits are higher than those from everyday business.

Two things went disastrously wrong for the souvenir industry even before the visit was thrown into doubt. First, it was impossible to forecast the size of the market accurately. The Papal visit has obvious attractions for the UK's 5m to 6m Roman Catholics and for many Anglicans, but there is not the universal market there was for last year's royal wedding.

Second, the store buyers were unhappy about over-committing themselves.

The Roman Catholic Church in England, Wales and Scotland decided souvenirs would be a major item of revenue after its experience of the Pope's visit to Ireland in 1980 which, in spite of the enormous crowds, was a financial disaster for the Irish Roman Catholic Church. The visit cost I£8m and although national collections raised I£2.5m there was a cash shortfall of I£500,000. The commercial spin-offs and profits were entirely in private hands and there were some distasteful products.

After this mortifying example, the Church set up a company called Papal Visits England and Wales and PV Scotland. International Management Group was hired to handle the marketing and a 10 per cent commission was levied on the recommended retail price of approved souvenirs. Four-fifths of that 10 per cent will be paid to Papal Visits to finance the trip and the remaining fifth to IMG.

The Roman Catholic Church in Britain is bearing the major cost of the visit and would therefore be the biggest loser if cancellation happened. The costs of the visit are estimated at £6.2m for England and Wales and £1.2m for Scotland. More than half that money has already been spent and the co-ordinators believe that about a sixth of the total, i.e. only £1.2m, is recoverable. The insurance cover against cancellation is £1m for England and Wales — the Church had intended to raise the cover but left it too late.

Most of the money has been spent on construction work, particularly outside London. Liverpool alone has spent £300,000 on construction work at Speke airport. The northern dioceses will have to foot most of the bill because, unlike the Church of England, there is no equalisation scheme or central board of finance.

This is likely to cause some controvedsy as the northern dioceses tend to contain pooer Roman Catholics than in the south. The Church is traditionally tight-lipped about its finance and its financial structurs is decentralised, but it appears that many diocesese are in debt. Westminster Archdiocese alone owes more than £6m, even before the visit.

The funds will be raised by a series of levies on the 50 per cent of Roman Catholics who go to Mass. They will be asked to put money in the plate—in Westminster it will be around £1.50, but in Merseyside £3 a head and in Hexham and Newcastle £5 a head.

It is still doubtful whether the Church will raise all necessary money this way. Levies raised at the beginning of the year to provide the seed corn for the visit raised much smaller sums. Westminster, one of the richest communities in the Church, for example, showed an average donation of only 84p.

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UK NEWS

Key vote ahead on London Transport plans

BY HAZEL DUFFY, TRANSPORT CORRESPONDENT

LONDON TRANSPORT'S investment plans face their first major test following the Law Lords' ruling against the Greater London Council's cheap fares scheme.

A plan to place a £25m order for new buses goes before the GLC Transport Committee on June 23. That meeting, and the subsequent council votes, will have substantial implications for the bus industry.

London Transport proposes to order this year, for delivery in 1983, 210 Leyland Titan double-deckers and 150 Metro-Cammell Metrobuses.

London Transport's requirements represent about three-quarters of Leyland's production of double-deckers and one-third of Metro-Cammell's. The industry's order books are already severely affected by the spending cuts of other passenger transport authorities.

A group representing bus manufacturers and operators will shortly report to the Government on the low level of ordering throughout the country. The Association of Metropolitan Authorities is also showing a keen interest in the implications for the future viability of a UK bus industry.

GLC's counsel has been advising strict adherence to the Law Lords' ruling which, as applied to investment decisions, means that every investment of more than £1m must be related to the eventual break-even of the London Transport network.

London Transport's managing director of buses, Dr David Quarmby, says this would imply a bus fleet of about half the present strength of just over 5,000. In these terms, the proposed order for 1983 would not be justified in its entirety, if at all.

In the meantime, Mr Dave Wetzel, GLC transport committee chairman, is seeking alternative legal advice in the hope that a more moderate interpretation could be made of the Law Lords' decision.

There is, however, a suspicion in some quarters that the GLC would rather stick to its strict interpretation as a way of forcing the Government to change the law.

Unscrambling the colour television market's confused signals

Jason Crisp on the industry's booming sales and growing fears

TELEVISION manufacturers in the UK have become increasingly nervous recently. The British colour television market is booming but there has been a rise in production capacity recently and stocks have also risen sharply. As a result production planning for the dozen TV makers in the UK is proving difficult.

Some apparently contradictory signals have been coming from the industry. The first quarter of this year has seen sales soaring even higher than in the corresponding period of 1981, and last year was the best since the "Barber boom" in 1973. Deliveries to the trade totalled 2.53m units according to the British Radio Equipment Manufacturers' Association, of which 2.25m were sold. Industry sources suggest that deliveries in the first three months of this year were 15 per cent higher than in the same period of last year.

Recently Sony, the longest-established Japanese TV maker, announced that it is making the expensive and difficult move into rental and is more interested in expanding capacity than reducing it.

Yet last week ITT announced that it planned to make nearly half of its remaining UK production force redundant by the end of the year. GEC-Hitachi has also announced that it is cutting production and laying off staff—even though the company's market share has risen.

Manufacturers are especially worried by the rapid growth in stock levels, which are substantially higher than last year, and some fear de-stocking by the trade and the eruption of a price war.

Several manufacturers have been increasing production capacity in the hope of gaining a larger share of a growing market, thus creating a surplus of sets. Another problem is that by far the largest growth has come in two sectors, small sets and teletext. Small sets are largely imported and not all manufacturers are geared up to make teletext sets economically.

There are various reasons for the growth in the TV market. A significant number of people have now begun to replace their first colour TVs. In real terms, the price of a colour TV has fallen considerably and there is also a strong demand for second sets. This is why the small 14-inch set is probably the fastest-growing sector of the market, rising 40 per cent in the first quarter of this year.

Since early last year—when manufacturers, rental and retail outlets, and the Government agreed on a co-ordinated push—the demand for teletext sets has soared. By the end of last year an estimated 350,000 homes had teletext sets, of which 220,000 sets were delivered in 1981. Estimates for this year vary widely, but the most optimistic predictions expect that by Christmas 1m homes will have teletext.

About 80 per cent of teletext sets are rented and the market has been dominated by Thorn EMI, Britain's largest TV maker. Although Philips was an early entrant, Thorn appeared to steal a march on its competitors and at one time was thought to have 80 per cent of the market.

According to one industry source, the Japanese manufacturers — with the exception of Sony — were the slowest to realise teletext's potential. And without tied rental chains like Thorn EMI and Philips it is harder for them to catch up. Another problem is that it is more expensive to make a teletext set if the television chassis was not originally designed — like Thorn's TX sets — to offer it as an option.

Britain has the greatest Japanese TV manufacturing presence in Europe, including Sony, Toshiba, Matsushita, Hitachi and Mitsubishi. And in the autumn Sanyo is expected to start manufacturing at Lowestoft, in a factory once run by Philips.

There is a wide body of opinion in the industry which believes that the larger manufacturers—Thorn EMI, Philips, and GEC-Hitachi—will have to cut production plans because stock levels are running so high. But GEC-Hitachi—an equally owned joint-venture between the British and Japanese electronics giants—has so far been the only one to announce a cut.

GEC says two-thirds of production from its plant is being sold by Hitachi, which can achieve as much as a £50 premium on an identical set sold by GEC. Industry sources blame GEC's limited promotion efforts, which have given it a poor name both with the trade and the consumer. And only half of GEC's sales are in its own name, the rest being sold or rented by companies such as Granada or Dixons.

GEC says sales in the last financial year were significantly higher but are now flattening out. It points out that production was limited this winter after a roof collapsed because of snow. This has resulted in higher staffing levels.

Imports of colour TVs have also risen in the last year. The increase has come from Grundig—which has been very competitive on price—and has been buying market share, in line with its customary practice—and from Philips which has been importing from the Far East and from Bruges in Belgium.

Executives approve economic strategy

BY LISA WOOD

EXECUTIVES nation-wide are opposed to any change in the Government's economic and industrial strategy as a means of creating more jobs, according to the Institute of Directors (IOD) yesterday.

Some 200 executives involved in 24 IOD discussion groups, which have met over the last two months to debate the role of business in reducing employment, concluded that increased competitiveness was the only way to create jobs in the long-term.

"The majority of discussion groups felt therefore," said the IOD, "that companies did not have a responsibility, over and above meeting their own requirements, to create jobs.

Although the executives believed "artificial means should not be used to increase the size of work forces," the institute also says its members have shown strong support for the Government's youth employment schemes and assistance for the handicapped.

National Savings down on target

BY ERIC SHORT

NATIONAL SAVINGS made a poor start to the financial year 1982-83, with net receipts, including accrued interest, totalling just £89.7m in April.

This must be regarded as a disappointing figure, compared with the record year in 1981-82 when net receipts, including accrued interest, reached £4.2bn.

April's figure is well below the amount needed to reach the Treasury's 1982-83 target of £3bn. This requires a monthly savings figure averaging £250m.

Investment in index-linked National Savings Certificates, still known as Granny Bonds, remained strong at £104.3m. But there was a net disinvestment of £19.7m in non-index-linked certificates.

The new, 24th issue did not appear until April 19, so for much of the month there was no such certificate available. The current issue offers a return of 8.92 per cent tax free if held for five years. A total of £29.2m of this new issue was sold in April.

Tax reforms sought on own-share deals

FINANCIAL TIMES REPORTER

THE ASSOCIATION of Independent Businesses has joined calls for the Government's proposed tax reforms to be broadened to facilitate purchases by companies of their own shares.

In particular, the association wants to make it easier for inactive entrepreneurs and their successors to dispose of their shareholdings in small, unquoted companies.

The 1982 Finance Bill proposed that certain share purchases by unquoted trading companies — mainly small and family businesses — should be subject to capital gains tax rather than advance corporation tax and income tax.

The Bill provides that the switch to capital gains tax would apply only if the purpose of the transaction was to benefit the trade of the company. Purchases arranged, in effect, as tax-free dividends would remain subject to advance corporation tax and income tax.

The association says it would be difficult to indicate "a benefit to trade" in practice and suggests that the wording be altered to indicate a benefit to "the management and the conduct of the company's affairs."

The Association of Independent Businesses would also eliminate the clause restricting share purchases by a company on the death of a shareholder to those cases where undue hardship from capital transfer tax liabilities would occur.

"The very fact that any capital transfer tax has to be paid will automatically be a hardship and leaves open to undesirable arguments the question as to what is, and what is not, undue hardship."

In cases where a shareholding represents the greatest part of an estate, the association suggests that purchases by the company should be considered capital transactions up to the level of capital transfer tax payable.

The protection of these provisions should also be available in cases in which the shareholding is 5 per cent or less, provided the entire holding is sold to the company. This would help to prevent the fragmentation of ownership and direction of small companies by second and third-generation owners.

Poll finds wine and spirit drinking habits constant

BY GARETH GRIFFITHS

BRITISH spirit sales may have been depressed for the past year but a National Opinion Poll survey suggests the number of people who drink wines and spirits has remained constant.

The survey, published at the weekend, found that 7 per cent of adults claimed never to have drunk alcohol, 56 per cent claimed to drink once or twice a week and just under 25 per cent at Christmas or on special occasions.

NOP found that while claimed consumption of whisky was fairly even throughout the country, a higher proportion of consumers in London than elsewhere said they bought wine. Some 61 per cent of those in London questioned bought table wine compared to only 36 per cent in Scotland. Apparently in response to recent advertising, 8 per cent of sherry drinkers in the London area said they took ice in their sherry compared to 6 per cent nationally and 4 per cent in the south and south west areas.

The most popular drink in the wines and spirits sector was table wine. The survey says it was drunk by 65 per cent of adults. Some 56 per cent said they drunk sherry at some time. Whisky is the most commonly drunk spirit with 41 per cent claiming they drink it "ever" compared to 22 per cent for gin and 21 per cent for vodka.

Wine in a box, which has been on the British market for just over a year, had been heard of by 21 per cent of the upper socio-economic group, compared to 8 per cent of all adults.

Some 54 per cent of consumers said they bought their Christmas wine supplies from supermarkets or grocers and 39 per cent from off-licences while 57 per cent of whisky drinkers said they bought from supermarkets and 27 per cent from off-licences.

The NOP survey had a sample of 1,924 adults.

UK NEWS

Steps toward Anglo-Irish accord

Margaret van Hatten sees hope at a mundane level

LAST WEEK was a good week, possibly even an historic week, for Anglo-Irish relations. To begin with, the first Northern Ireland judge ever to sit in a Republican court heard evidence in Dublin on Monday as part of the Belfast trial into the murder in Armagh last year of Sir Norman Stronge and his son.

On the same day the Dublin High Court refused to block an extradition order against a Dublin man wanted in the North in connection with a murder charge. The court rejected the man's argument that he had once worked for the IRA and that any offences committed by him were political.

Later in the week another Dublin court sentenced to eight year's jail each three Northern Ireland men convicted of possession of firearms near the border.

On the political front there were two constructive, if unremarkable, Ministerial meetings of the Anglo-Irish Council, Britain being represented in Belfast on Monday by Mr David Mitchell and in Dublin on Tuesday by Mr Adam Butler.

Relations at the very top may be at their worst for years. But however "dead" Mr Charles Haughey, the Irish Prime Minister, may pronounce the Anglo-Irish process, and whatever Mrs Thatcher may or may not have said she would like to do to him with the Georgian silver teapot he once gave her, co-operation in the *more* mundane raeas of mutual interest does not appear to have suffered.

The present rift is unlikely to *undo the progress made in the* past two years. There is too much at stake on both sides.

It will probably ensure that little further political progress *is made* for some time. In London, the possibility of another summit between the two Prime Ministers is virtually ruled out for the rest of the *life of this Parliament.*

The rift is likely to exacerbate the problems of Mr James Prior, the Northern Ireland Secretary, and his Ministerial *team in steering through* Parliament their devolution proposals.

For the Falklands crisis has dramatically changed the mood of the Tory Party, and the Irish Government's role in the past fortnight, leading to Ireland's opposing renewal of EEC sanctions and hoping to override Britain's veto on farm price *rises, has caused widespread* indignation.

Previously most of the party was apathetic about Northern Ireland, and apart from the Right-wing pro-Unionist fringe *prepared to support Mr Prior's* Bill, if that was what he wanted.

Now the anti-Irish sentiment has spread toward the middle mass of the party, which while *still unlikely to oppose the Bill* may block attempts to amend it in line with Labour and Northern Irish Nationalist demands.

If this costs Mr Prior the support of the Nationalist minority then his initiative will almost certainly be stillborn.

Indeed, some members of the *Government* are convinced that Mr Haughey is so determined to kill Mr Prior's initiative that he considers a prolonged freeze in Anglo-Irish relations a small *price to pay.*

Others prefer to explain the Irish Government's stance in terms of the forthcoming by-election in West Dublin.

As politicians they readily accept Mr Haughey's need to win and consolidate his fragile Parliamentary majority, though they consider the active manner in which he opposed *sanctions a violation of the* "special relationship" formalised by two summits and the establishment of the Anglo-Irish Council.

But London and Dublin have always had different perceptions of this special relationship, and until now have been prepared to live with the ambiguity for domestic political advantage.

Thus, London saw the relationship as a means of defusing intercommunal tension in Northern Ireland and of improving cross-Border security: while Dublin apparently hoped for closer co-operation in the EEC and a say in formulation of Northern Ireland policy.

London's failure to consult Dublin before drawing up devolution plans, conceded by some British Ministers to have been at best a discourtesy and at worst a bad mistake, may well have persuaded Mr Haughey that there was little left in the relationship worth defending.

That the present freeze will *almost certainly block further* political progress for many months is not regarded in London as a major setback.

In the absence of headline-catching summitry and further political initiatives, it is just possible that day-to-day co-operation in the real world, between policemen seeking gunmen, bureaucrats rationalising *gas resources and businessmen* consolidating existing links, will go from strength to strength.

Dublin court ruling may close extradition loophole

BY OUR DUBLIN CORRESPONDENT

THE LEGAL loophole by which suspects wanted for terrorist-type offences in Northern Ireland can avoid extradition from the Republic could, in practice, be closed if a recent decision made by a Dublin High Court judge is *upheld.*

In the past, suspects have escaped extradition by admitting their part in the offences but claiming that the offences were political or connected with a political offence. However, the effectiveness of cross-border legislation means that this line of defence could leave a suspect open to prosecution in the republic.

Recent successful prosecutions and the first sitting of a Northern Ireland judge to hear evidence in a Dublin *court suggests* that the Criminal Law Jurisdiction Act, which was intended to get round the extradition problem, can work.

The problems this poses for defence lawyers in extradition cases were shown last week when Mr Dominic McGlinchey appealed against an extradition order to Northern Ireland.

Unlike in previous cases, Mr McGlinchey's lawyers did not admit their client's involvement because they feared such an admission might be used *against him in* a prosecution under the law.

Mr T. K. Liston, senior counsel representing the Irish Director for Public Prosecutions, argued *that* without such an admission the court could not decide whether the offence was political. Mr Justice Gannon agreed and ordered Mr McGlinchey's extradition.

An appeal is likely to be made to the Supreme Court but if the decision is upheld, *suspects could face a Hobson's choice* of extradition to Northern Ireland or trial.

The case, along with cross-border ministerial visits on natural gas and tourism, is in part the fruit of the recent emphasis on better Anglo-Irish relations.

Painful lessons put the Republic on its guard

BY BRENDAN KEENAN IN DUBLIN

THE SOURING of relations between Britain and the Irish Republic goes back to the IRA hunger strike last year. Political observers in Dublin believe Mrs Margaret Thatcher's handling of the issue changed Irish Prime Minister Mr Charles Haughey's mind on the benefits of the closer London-Dublin relationship which he had sought to forge.

For the British Government did not take Irish advice on the hunger strikers and Mr Haughey lost his job when H-block candidates won two vital seats in the 1981 General Elec*tion.*

Nor did the British Govern*ment incorporate the views* of Mr Haughey or Dr FitzGerald on a new political initiative for *Northern Ireland. The EEC* farm price deadlock showed that better relations did not include any softening of line in areas where British and Irish national interests differ.

There may be a failure of perception here. British politicians probably did not see the Anglo-Irish process as relevant to any of these issues. But, as Irish Government sources say, if better relations do not produce any impact on such vital issues, what is the point of worrying about them?

This is especially true, the sources say, since it is "business as usual" on practical co-operation in security, law enforcement and on matters *like the proposed gas pipeline* from Dublin to Belfast.

This seems to have been Mr Haughey's line of thinking during the Falklands crisis. The dispute awakened uncomfortable eschoes in Ireland where the issues of colonialism, territorial claims and self-determination are not 8,00n miles away.

There is clear evidence that Mr Haughey and some of his ministers were unhappy about the Falklands issue from the beginning and that they did not always see eye-to-eye with their Department of Foreign Affairs. Indeed, Mr Haughey viewed the department with much the same affection as Tory Right-wingers do the Foreign Office.

It is reliably reported that the crucial Irish statement which called for a meeting of the UN Security Council and an end to EEC sanctions was drafted, not by Foreign Affairs officials, but by one of Mr Haughey's advisers, Dr Martin Mansergh.

It was only in the course of the afternoon, as Foreign Affairs countered, that a request for "an immediate meeting" became "an immediate request for a meeting" and that it was made clear that Ireland still favoured an Argentinian with*drawal as laid down in UN* Resolution 502.

The diplomats are also unhappy about the use of Irish neutrality as the main justifica*tion for the change in policy.* Irish neutrality is like the Cheshire cat—it is there but is inclined to disappear from sight for long periods.

The diplomats prefer it when only the smiles remains, but Mr Haughey—perhaps inadvertently—has suddenly given the creature a new and somewhat surprising body.

These are the areas on which Dr FitzGerald has concentrated his opposition, claiming that Mr Haughey has been "clumsy" and that neutrality is a "phony excuse." He has not, though, challenged Mr Haughey's premises.

The Government's stance on the *Falklands is undoubtedly popular and when Mr Haughey* says, as he did at the weekend, that Britain must remember Ireland is a sovereign, independent country, he can be assured *of* public approval.

Dublin West goes to the polls in a vital by-election tomorrow and Mr Haughey is determined that Mrs Thatcher will cost him no more elections.

Haughey warns of threat in devolution proposals

FINANCIAL TIMES REPORTER

MR JAMES PRIOR'S devolution proposals for Northern Ireland are more damaging to Anglo-Irish relations than the Falklands dispute, Mr Charles Haughey, Prime Minister of the Irish Republic, has said.

Mr Haughey said on Irish Radio that his Government had tried to keep separate the Falklands dispute, Northern Ireland *and EEC issues. But the Anglo-Irish process had been seriously injured by the plans of Mr Prior,* Northern Ireland Secretary.

They have been opposed by *most Northern Irish political* parties and by two Irish Governments, and would be seen by history as one of the most disastrous events in relations between the two countries.

Mr Haughey accepted that there had been hostility to the Irish stance on the Falklands. There was "latent anti-Irish feeling in Britain," but he hoped that maturity and responsibility would prevail and the Irish position would be understood.

Nuclear capability made the war in the South Atlantic like lighting a fire in an inflammable forest, he said. Ireland, which represented a group of nations on the UN Security Council, had a moral obligation to do everything it could to stop hostilities.

Mr Haughey said an early meeting with Mrs Thatcher was unlikely.

Britain had been wrong and misguided to hold up EEC farm prices and the seven states—including Ireland—which voted through the measures were right to do so.

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UK NEWS – LABOUR

Financial row breaks out at ASTMS conference

BY BRIAN GROOM, LABOUR STAFF

THE ANNUAL conference of the 43,000-strong Association of Scientific, Technical and Managerial Staffs (ASTMS), nearly ended a day early in uproar yesterday, as a row over finances broke out.

Delegates in Harrogate came within a hair's breadth of forcing the 25-member executive to resign for mishandling a levy of branch funds.

An angry debate illustrated the financial problems besetting unions, as Mr Norman Tebbit prepares in his Employment Bill to expose their funds to civil action for damages.

ASTMS suffered a £906,000 deficit of income against expenditure last year, compared with a £450,000 surplus in 1980. The union was hit by falling membership at the same time as it financed the purchase of impressive new headquarters in Camden Town, London, into which staff recently moved.

The executive decided last July on a levy of branch funds to cope with the problem. It was carried out in December, and raised a gross £¼m.

It was calculated on estimated branch accounts, and left several branches in the red. Despite a formal apology from the executive, speaker after speaker rose yesterday to condemn both this and delays in refunding overcharged branches.

"The raid of the branch accounts is the last fling of the gambler to try to correct a financial situation that has been deteriorating within this association for the last three years," said Mr Frank Lott, a delegate from Tyneside.

Had the vote been taken immediately after the debate, delegates would almost certainly have passed a motion demanding the executive's resignation.

Although supporters of the motion urged it to resign after conference, the executive may well have quit immediately, ending the conference. It was unclear whether Mr Clive Jenkins who, as general secretary, is a non-voting executive member, would have had to resign.

However, delegates rejected the motion by two to one after lengthy delays for procedural points allowed them to reflect that the union would be without an executive for four months at a crucial time for the Labour movement.

ASTMS, once the growth stock of the TUC, saw its membership fall by roughly 10 per cent last year, through failure to recruit rather than redundancies.

It was financing new headquarters bought for nearly £3m at the start of 1980, which is being refurbished for up to £1.5m. ASTMS is due to start repaying a £1.5m bank loan for the purchase in 1983, and last year saw its general fund bank overdrafts soar from zero to £2.57m.

Sales of property, including the former headquarters and the City office, are expected to raise £1.7m to reduce borrowing in the next 12 months. However, even with this and with a 25 per cent increase in members' contributions, which was introduced on January 1, a deficit is expected for 1982 and probably for 1983.

Its members' funds totalled £3.135m at the end of 1981, compared with £4.034m the year before.

Mr Tebbit's Bill would expose unions to claims for damages of up to £250,000 for unlawful industrial action. ASTMS voted on Saturday to defy the law, if necessary.

Mr Jenkins said the TUC general council might have to take over any union bankrupted by the measures.

Conference rejected calls for a 24-hour general strike, and for withdrawal from tripartitie bodies.

On the economy, ASTMS overwhelmingly supported both free collective bargaining and the TUC's alternative economic strategy.

Mr Jenkins said he rejected wage controls or norms, but a Labour Government would have to decide what to pay the 24m people whose incomes derive from the state or state industries and services.

Election warning to Labour

By John Lloyd, Labour Editor

LABOUR PARTY members who were prepared to say that the next election did not matter would lose the party the general election, Mr Derek Gladwin, southern regional secretary of the General and Municipal Workers' Union, said yesterday.

"We know that the loss of the next election would lead to a fresh period of internal warfare within the Labour movement, a process which would be disastrous for our industrial as well as our political strength. Above all, we know that another period of Tory rule would bring an intensification of their attack on the living standards of our members, on the social wage and on the freedom of trade unions."

It was "a most dangerous heresy to believe the next election did not matter, he said.

● MR DAVID BASNETT, general secretary of the GMWU, claimed yesterday that soundings among companies in which his members were employed showed that "virtually no employers" supported the Government's proposed employment legislation.

Private services battle may halt council work

BY JOHN LLOYD, LABOUR EDITOR

MAY HALT COUNCIL WORK SERVICES in the London Borough of Wandsworth face complete closure within two weeks as a long-running dispute between the council and unions over privatisation of many services comes to a head.

A meeting today of the 250 dustmen, on strike for the past five weeks, is likely to vote to ignore a council instruction to return to work immediately or face the sack.

The decision by a council sub-committee to sack the dustmen is to be ratified by the full council meeting on Thursday. If it goes through as expected the two major blue-collar unions, the General and Municipal Workers' Union and the National Union of Public Employees, will recommend the 2,500 council manual workers to begin an all-out strike.

The issue is seen by the union as critical in its growing campaign against passing of council services to private operation.

The GMWU and NUPE, each meeting in conference this week, have issued separate calls to their members to resist measures to hive off services to the private sector and are prepared to back strike action wherever councils push through such measures against union resistance.

Mr Ron Keating, NUPE assistant general secretary, said: "There is no way we are going to allow private contractors to come in."

Mr David Basnett, the GMWU general secretary, said yesterday: "If other councils pursue the same line as Wandsworth, then they may also be affected by action.

"It is not a question of trying to seek efficiencies, which we agree with. It is a question of ideology."

The issue at Wandsworth arose when the dustmen struck against council plans to seek tenders for refuse collection.

Since then the council has employed Pritchard, the cleansing company, which already has the borough's street cleansing contract, to collect refuse on a temporary basis.

Mr Derek Gladwin, GMWU Southern Regional secretary, said that he would be willing to discuss savings and efficiencies in the service if the dismissal notices were lifted.

However, he would not recommend a return to work on the basis of his members putting in a tender against commercial companies.

The NUPE conference voted to support "all forms of industrial action in the borough, to make an official contribution of £1,000 to the strike fund, and to request the TUC to black Pritchard."

The Conservative-controlled council was re-elected with a majority of five in the borough elections this month. It intends to privatise other services, including baths, halls and mechanical workshops.

Miners may strike in support of NHS staff

BY PHILIP BASSETT, LABOUR CORRESPONDENT

YORKSHIRE miners' leaders will consider today calling out their members on a 24-hour strike in support of the health workers taking action over their 12 per cent pay claim.

The disclosure comes among mounting evidence of support from other unions for the health workers — particularly from the NUM.

Miners in South Yorkshire have already taken action and those in South Wales, are currently ballotting their members on a 24-hour sympathy strike. The result should be known on Wednesday, but first indications show that at least three lodges have voted in favour.

A clear indication of the miners' line came yesterday from Arthur Scargill, NUM President, who sent a telegram to the annual conference in Scarborough of NUPE, the largest health service union. The telegram stated: "The NUM pledges full support to all Nupe members in their struggle for a decent living wage. We stand ready to give all necessary co-operation and support."

Mr Pat Denning, president of NUPE, the largest union in the NHS, will call on TUC leaders for support at a meeting today of the "TUC inner cabinet" the finance and general purposes committee. And he is to take the appeal to the meeting of the full TUC general council on Wednesday in the form of a leter from Mr Rodney Bickerstaffe, NUPE general secretary designate.

Mr Denning said, in his presidential address, that self-denying constraints health service workers placed on taking industrial action meant they had "every right to insist that other trade unionists recognise this and make a practical display of their solidarity."

He called on workers in industry, transport and the media to take action supporting the health workers.

He suggested a 24-hour strike of newspapers, radio, and television to focus public attention on the NHS campaign; a one-day public transport strike; and strike action by "a couple of hundred thousand" industrial workers, to allow a march through London.

He was seeking the support of other unions with "industrial clout" and said: "If the TUC wants a dress rehearsal of the kind of action that might be necessary to defend individual unions threatened by Tebbitt's employment Bill it should get busy now organising sympathetic action by all TUC affiliates in support of the health service unions."

An extension of current co-operation between all health service unions is suggested in a statement by the NUPE executive on wages policy. The statement will be considered by the conference today.

It proposes a continuation and escalation of the current NHS action. The statement also discloses that NUPE has arranged a meeting in July between the unions on the TUC public services committee and on its nationalised industries committee. NUPE hopes the meeting will develop a joint strategy between public service and public sector unions over the 1982-83 pay negotiations, including renewed efforts to achieve a common pay claim and common settlement date.

Some health service workers in Scotland are on indefinite strike over the 12 per cent pay claim, and industrial action is having a disruptive effect across the country.

THE WEEK IN THE COURTS

The exporting of national treasures

BY JUSTINIAN

AN ESSENTIAL part of a government's duty towards maintaining the cultural life of its citizenry is the conservation and protection of the country's historic and artist possessions, its national heritage. Works of art which are easily removed abroad have been the subject of legislation in many countries whereby their export is prohibited, except under licence. The enforcement of such prohibitions requires reciprocal treatment from those countries to whom artistic possessions are unlawfully conveyed. If that is so, the Court of Appeal's decision on Friday, *Attorney-General of New Zealand v. Ortiz and others** is singularly unhelpful.

A few years ago a farm labourer in New Zealand uncovered a valuable Maori artifact—a series of five Maori carved wood totaro wood panels which formed the front of a food store carved in the Taranaki style. The carving was 150 years old. In March 1973 the farmer sold the carving to a dealer in primitive works of art. Subsequently the carving was removed from New Zealand and sold in New York to Mr Ortiz. In 1977 Mr Ortiz's daughter was kidnapped, and in order to raise the ransom money demanded, Mr Ortiz sent part of his art collection to Sotheby's for auction. The principal item in the auction was the Maori carving. The impending auction came to the notice of the New Zealand Government which took swift action in the courts to prevent the sale of the carving. It sued for a declaration that the carving belonged to the Crown in right of her government in New Zealand and an injunction.

The Maori carving was protected by the Historic Articles Act 1962. By that Act it was unlawful for anyone to remove the carving from New Zealand, knowing it to be an historic article, otherwise than pursuant to the authority of a written certificate given by the Minister of Internal Affairs for New Zealand. No certificate had been issued to the art dealer. By another provision in the Act the carving was forfeited to Her Majesty. The first point decided by the English courts as a preliminary issue was whether the New Zealand legislation operated to effect an automatic forfeiture on the carving being unlawfully exported, or whether forfeiture took effect only as and when the carving had been seized by the customs authorities.

The words in the 1962 Act were, "shall be forfeited." That was ambiguous. They were as capable of meaning automatic forfeiture as being liable to forfeiture. The judge, Mr Justice Staughton (of The Romans in Britain fame) was persuaded to the *former* interpretation, on the grounds that the purpose of the New Zealand legislation pointed firmly in the direction of automatic forfeiture. The Act was designed to secure for New Zealanders the enjoyment of historic articles, which could alone be met by the more stringent process for preventing any unlawful export.

Lord Lenning in the Court of Appeal expressed the view that the judge's reasoning was open to one fatal objection: it would mean that the 1962 Act would have the effect beyond the territory of New Zealand, since the forfeiture would take place as soon as the historic article was exported. And he cited the classical view of international law that the laws of no nation can justly extend beyond its own territory, except so far as regards its own citizens.

That rule of international law has, however, undergone *some* radical modifications. If a Parliament, be it in the UK or New Zealand, wishes to legislate beyond its own territories it can do so, and the courts will uphold it. Indeed only last year the House of Lords held that the forfeiture of some pornography which was seized from a warehouse in this country, but was intended exclusively for export, was permissible, even though parliament had merely provided for forfeiture of articles "kept for publication for gain" without stating any geographical limitation.† Since the whole purpose of the New Zealand legislation was to protect its national heritage against removal abroad, it seems that Lord Denning has overlooked its purpose in favour of an outmoded rule of international law.

The much more debatable point was, assuming that the New Zealand legislation effected an automatic forfeiture, would the English courts enforce such a law? The problem lay in a long-established rule that English courts have no jurisdiction to entertain an action for the enforcement, either directly or indirectly, of a penal, revenue or other public law of a foreign state. Again, Mr Justice Staughton concluded in favour of the New Zealand Government. He held that the 1962 Act was not a revenue law. But was it penal, since it no doubt had an unpleasant consequence for the owner who was found to have exported it without a permit and could be fined for his wrongdoing? The judge concluded that the purpose of forfeiture of the historic article was not the vindication of public justice but was a measure designed purely to preserve the property of the people of New Zealand, the fine being tangential to the real purpose of the law. Lord Justice Ackner in the Court of Appeal though that the public right asserted by the Attorney General of New Zealand was one which the New Zealand Government sought to vindicate through confiscation. It would be wholly unreal to suggest, therefore, that the forfeiture provisions were not a foreign penal statute. The difficulty about the case is that the New Zealand Government had no proprietary title to the carving and was, therefore, seeking to enforce the 1962 Act itself.

In those countries where the state owns the nation's treasures *there is no problem of recovery* if any of its properties are removed unlawfully. But where the private ownership of works of art is sought to be preserved for the nation by legislation preventing their export, any unlawful removal from the country renders them legally irretrievable from Britain: that is, if the decision of the Court of Appeal stands. Clearly there is urgent need for international action. Just as nations agree to hand over fugutive offenders, so they ought to hand back the treasures that are illegally removed.

* *Times Law Report, May 22 1982*

† *Gold Star Publications Ltd v Commissioner of Police of the Metropolis [1981] 1 W.L.R. 732*

RACING

BY DOMINIC WIGAN

CONCORDE HERO, already earmarked for Royal Ascot's Coventry Stakes, has every appearance of giving backers of favourites a good start to the week at Kempton this evening.

Such was the confidence behind this handsome Super Concorde colt on his racecourse debut that he started at odds of 2-7 when he beat nine opponents in Newmarket's British Telecom Stakes earlier this month. Eased into the lead a quarter-of-a-mile from home by Lester Piggott, the Warren Place colt cruised clear of his rivals, headed by Burglar's Walk, to win with consummate ease.

Cecil saddles the American-bred colt this evening to give him experience before next month's royal meeting, and Concorde Hero is likely to complete his double tonight at the expense of John Dunlop's newcomer, Gennaro.

Two other likely winners for the Cecil-Piggott team are Paradise Terrestre, who makes his seasonal debut in the Heron Stakes and Chalon, chasing a hat-trick for the season in the International Fillies Stakes.

Paradise Terrestre, who runs in preference to Match Winner, is thought to have recovered after a training setback and if this is the case he will almost certainly outclass Riyahi. Chalon, the half-length conqueror of Merlin's Charm in the Ladbrokes Nell Gwyn Stakes at Newmarket on April 15, is likely to complete her hat-trick.

Turning to Bath, John Reid may only have to wait for the completion of the first race, the Downs Stakes, to open his account at the earliest opportunity, as he did a year ago. Reid, responsible for the 12-1 winner Wicked Wave in the Downs Stakes last year, rides Prince's Heir this time.

On the Derby front, the Press Association's Irish correspondent has confirmed Golden Fleece as a definite runner for the English Derby after talking to Vincent O'Brien at the Curragh. Everything points to the unbeaten colt being in the line-up, but after the events of recent weeks nothing would surprise me.

BATH

2.00—Prince's Heir***
3.00—Charlotte's Choice
3.30—No Fluke

KEMPTON

6.00—Concorde Hero
6.30—Paradise Terrestre
7.00—Spectacular Sky
7.30—Chalon
8.00—Another Sam
8.30—Government Programme
9.00—Match Master*

EDINBURGH

7.00—Fleet Bay
7.30—Johnnie Hussar**

TELEVISION

Chris Dunkley: Tonight's Choice

BBC 1's "Play of the Month" is I Have Been Here Before, one of several dramas by that cunning old weaver of spells J. B. Priestley containing a spooky sense of déjà vu or simple fatalism and giving rise to the collective title "Time Plays." In this story a mysterious foreign doctor arrives at an inn on the Yorkshire moors seeming to know much more about the place than any real stranger should. Herbert Lom is the doctor and Janet, another of the inn's guests, is played by Lorna Heilbron . . . which is a tiny bit eerie because, according to my script, the six strong cast of the original 1937 production at the Royalty included William Heilbron.

Human Brain on BBC 2 has so far thrown something less than a blindingly clear light on its subject; the inconsistent shading of a guttering candle might be nearer the mark. Tonight the series deals with language, trying to discover how our brains perform specific functions by using the same programme tech*nique as Episode 1: studying* those in whom the function has gone wrong. The narrator is Colin Blakely, who, at 11.00 reads the first episode of a new "Book at Bedtime" on Radio 4, Graham Greene's The Quiet American. BBC 2's Banking on Allah investigates what could be a new force in world finance: the billions of dollars lying around unused because Islamic rules forbid the charging or earning of interest.

BBC 1

6.40-7.55 am Open University (ultra high frequency only). 9.08 For Schools, Colleges. 10.00 You and Me. 10.15-12.05 pm For Schools, Colleges. 1.00 pm News After Noon. 1.30-1.45 Pigeon Street. 2.01-3.00 For Schools, Colleges. 3.15 Songs of Praise from Caerleon, Gwent. 3.53 Regional News for England (except London). 3.55 Play School. 4.20 Cheggers Plays Pop. 4.45 Jana of the Jungle. 5.05 John Craven's Newsround. 5.10 Blue Peter.

5.40 News.
6.00 Regional News Magazines.
6.25 Nationwide.
6.55 Triangle.
7.20 Bret Maverick, starring James Garner.
8.10 Panorama.
9.00 News.
9.25 Play of the Month: "I Have Been Here Before," by J. B. Priestley, starring Herbert Lom and Anthony Valentine.
11.05 The World of Golf (4) The Ladies.
11.33 News Headlines.
11.35 The Computer Programme.

BBC 2

6.40-7.55 am Open University
11.00-11.25 Play School.
5.10 pm Knottley Fields.
5.40 Cartoons.
5.55 The George Formby Story.
6.35 Souvenirs of Sidmouth.
6.55 Better than New.
7.20 News Summary.
7.25 A Moment to Talk.
7.40 A Family Band.
8.10 The Mathis Magic.
9.00 The Hitch-Hiker's Guide to the Galaxy.
9.30 Human Brain.
10.20 Banking on Allah (A Money Programme Special).
11.00-11.50 Newsnight.

LONDON

9.30 am Schools Programmes. 12.00 Cockleshell Bay. 12.10 pm Rainbow. 12.30 Supersavers. 1.00 News plus FT Index. 1.20 Thames News with Robin Houston. 1.30 Van Der Valk. 2.30 The Chisholms. 4.15 Bugs Bunny. 4.20 The Sooty Show, presented by Matthew Corbett. 4.45 Smith and Goody. 5.15 Gambit.

6.00 Thames News
5.45 News.
6.25 Help! The community action programme with Viv Taylor Gee.
6.35 Crossroads.
7.00 Nature Watch.
7.30 Coronation Street.
8.00 Union Castle.
8.30 World in Action.
9.00 Minder, starring Dennis Waterman and George Cole.
10.00 News.
10.45 Midweek Sports Special: Brian Moore introduces the action from Hampden Park where Scotland meet Wales in the British Championship; also a look ahead to the World Cup warm-up match between England and Holland.
11.55 WKRP in Cincinatti.
12.25 am Close: Sit Up and Listen with Beverley Anderson.

†Indicates programme in black and white

All IBA Regions as London except at the following times:

ANGLIA

1.20 pm Anglia News. 5.15 Diff'rent Strokes. 6.00 About Anglia. 6.30 Benson. 11.55 Superstar Profile. 12.25 am Signs of the Seven.

BORDER

1.20 pm Border News. 6.00 Lookaround Monday. 6.15 Fashion Today. 6.30 Look Who's Talking. 9.00 Hill Street Blues. 11.55 Border News Summary.

CENTRAL

1.20 pm Central News. 6.00 Central News. 9.00 Hill Street Blues. 11.55 Central News. 11.55 Barney Miller. *12.30 am Come Close.*

CHANNEL

1.20 pm Channel Lunchtime News. What's On Where. 5.15 Emmerdale Farm. 6.00 Channel Report. 6.30 The Two of Us. 10.47 Channel Late News. 11.55 Aujourd'hui en France. 12.00 Ladies' Man. 12.10 am News in French.

GRAMPIAN

9.25 am First Thing. 1.20 pm North News. 6.00 *North Tonight*. 6.35 Country Focus. 9.00 Hill Street Blues. 11.55 Target the Impossible. 12.25 am North Headlines.

GRANADA

1.20 pm Granada Reports. 1.30 Survival. 2.00 Movie Memories. 6.00 Private Benjamin. 6.30 Granada Reports. 9.00 Quincy. 11.55 The Odd Couple.

HTV

1.20 pm HTV News. 6.00 HTV News. 9.00 Hill Street Blues. 10.43 HTV News. 11.55 Star Parade.

HTV Cymru/Wales—As HTV West except: 12.00-12.10 pm Dacw Mam Yn Dwad. 4.15 Murphy's Mob. 4.45-5.15 Sêr. 6.00 Y Dydd. 6.30-7.00 Report Wales. 8.30-9.00 Yr Wythnos. 11.55 World In Action. 12.25-12.55 am The Medicine Men.

SCOTTISH

1.20 pm Scottish News. 6.00 Scotland Today. 6.40 Crimedesk. 12.00 Late Call. 12.05 am Nero Wolfe.

TSW

12.27 pm Gus Honeybun's Magic Birthdays. 1.20 TSW News Headlines. 5.15 Emmerdale Farm. 6.00 Today South West. 6.30 The Two Of Us. 10.47 TSW Late News. 11.55 Postscript. 12.00 Ladies' Man. 12.25 am South West Weather.

TVS

1.20 pm TVS News. 5.15 Watch this Space . . . that Monday Evening Feeling. 5.30 Coast to Coast. 6.00 Coast to Coast (continued). 6.30 Emmerdale Farm. 11.55 Barney Miller. 12.25 am Company.

TYNE TEES

9.20 am The Good Word. 9.25 North East News. 1.20 pm North East News and Lookaround. 4.15 Cartoon Time. 5.15 The New Fred and Barney Show. 6.00 North East News. 6.02 Gambit. 6.30 Northern Life. 9.00 Hill Street Blues. 10.43 North East News. 11.55 Briefing. 12.25 am Flowers in Our Lives.

ULSTER

1.20 pm Lunchtime. 4.13 Ulster News. 5.15 That Monday Evening Feeling. 5.30 Good Evening Ulster. 6.00 Good Evening Ulster. 6.30 Square One. 10.44 Ulster Weather. 11.55 News at Bedtime.

YORKSHIRE

1.20 pm Calendar News. 6.00 Calendar (Emley Moor and Belmont editions). 6.30 Calendar Countdown. 11.55 Superstar Profile.

RADIO

(s) Stereo broadcast (when broadcast on vhf)

RADIO 1

5.00 am As Radio 2. 7.00 Mike Read. 9.00 Simon Bates. 11.30 Dave Lee Travis. 2.00 pm Steve Wright. 4.30 Peter Powell. 7.00 Stayin' Alive with Andy Peebles. 8.00 David Jensen. 10.00-12.00 John Peel (s).

RADIO 2

5.00 am Steve Jones (s). 7.30 Terry Wogan (s). 10.00 Jimmy Young (s). 12.00 Gloria Hunniford (s). 2.00 Ed Stewart (s). 4.00 David Hamilton (s). 5.45 News; Sport. 6.00 John Dunn (s). 8.00 Folk on 2 (s). 9.00 Humphrey Lyttelton with the Best of Jazz (s). 9.55 Sports Desk. 10.00 Monday Movie Quiz with Ray Moore. 10.30 Star Sound with Nick Jackson. 11.00 Brian Matthews with Round Midnight (stereo from midnight). 1.00 pm Encore (s). 2.00-5.00 You and the Night and the Music (s).

RADIO 3

6.55 am Weather. 7.00 News. 7.05 Morning Concert (s). 8.00 News. 8.05 Morning Concert (continued). 9.00 News. 9.05 This Week's Composers: Morales and Cabezon (s). 9.35 Malcolm Williamson (s). 10.00 French Organ Music (s). *10.40* Wolf and Mozart string quartet recital (s). 11.20 The Bravura Flute (s). 12.00 Lucerne Festival Strings (s). 1.00 pm News. 1.05 BBC Lunchtime Concert (s). 2.00 Matinee Musicale (s). 3.00 New Records (s). 4.55 News. 5.00 Mainly For Pleasure (s). 7.00 Purcell at the Playhouse (s). 7.55 Barnes' People. Monologue for radio by Peter Barnes with Alec Guinness. 8.15 "Punch and Judy," opera by Harrison Birtwistle, part 1 (s). 9.05 Six from South Kensington, by Colin McLaren. 9.10 "Punch and Judy," part 2 (s). 10.15 Julius Katchen (s). 10.30 Jazz in Britain, featuring Keith and Julie Tippett (s). 11.00 News. 11.05-11.15 Joan Hammond (soprano).

RADIO 4

6.00 am News Briefing. 6.10 Farming Week. 6.25 Shipping Forecast. 6.30 Today. 8.35 The Week On 4. 8.43 Glyn Worsnip with recordings from the BBC Sound Archives. 8.57 Weather, travel. 9.00 News. 9.05 Start the Week with Gary Glitter (s). 10.00 News. 10.02 Money Box. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.03 Down Your Way visits Poole in Dorset. 11.48 Poetry Please! 12.00 News. 12.02 pm You and Yours. 12.27 The Day Job. 12.55 Weather, travel, programme news. 1.00 The World at One. 1.40 The Archers. 1.55 Shipping Forecast. 2.00 News. 2.02 Women's Hour. 3.00 News. 3.02 Afternoon Theatre. 4.30 History Reflected. 4.40 Story Time. 5.00 PM News Magazine. 5.50 Shipping Forecast. 5.55 Weather, programme news. 6.00 News, including Financial Report. 6.30 I'm Sorry, I Haven't a Clue (s). *7.00 News. 7.05 The Archers.* 7.20 Start the Week with Gary Glitter (s). 8.00 The Monday Play (s). 9.30 Kaleidoscope (s). 9.59 Weather. 10.00 The World Tonight. 10.30 Science Now. 11.00 A Book At Bedtime. 11.15 The Financial World Tonight. 11.30 Today In Parliament. 12.00 News.

TECHNOLOGY

EDITED BY ALAN CANE

Variable car transmission research for fuel saving

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

DR PHILIP REASBECK, Lucas's director of group research, reckons an enormous market is opening up for microprocessor-based control gadgets, which could be worth £10bn a year.

So it comes as no surprise to find that this is an area where Lucas is applying a considerable part of its £65m annual budget for engineering and development.

Wider range

Lucas employs 3,500 qualified engineers and scientists in 11 research establishments in Britain, but Dr Reasbeck can be found at the central research unit at Shirley in the West Midlands.

The unit's job is to support the operating companies partly by looking for new techniques, technologies and products, then taking products to a stage where they have been "road tested" and a reasonable amount of marketing information has been gathered.

Three of the products nearly ready to be passed on to their operating-company homes illustrate the general thrust of work at the central unit with its 350 staff—and an average employee age of under 30.

The first is a microprocessor-based control unit for continuously variable car transmissions (CVTs).

CVTs provide a much wider range of gear ratios than current manual or automatic boxes but to enable their full fuel saving potential to be exploited the selection of the optimum ratio for each combination of operating conditions has to be an automatic process—you would not expect the driver to do it and survive the journey.

The Lucas CVT controller accepts input information from speed sensors (vehicle speed and transmission elements) and the driver's accelerator pedal. Its output signals control transmission to provide the required ratio at any given time.

Lucas built a test rig to simulate all the dynamically significant elements in a vehicle's driveline—namely the transmission shafts, gears, wheels and tyres, in respect of stiffness (compliance), backlash and inertias.

After proving the controller on the test rig—using the Perbury CVT being developed by BL—the complete transmission and control systems were installed in an 1850 cc car for extensive road trials.

These verified the fuel economies predicted by the rig tests—miles per gallon increases of up to 30 per cent and average increases of 15 per cent over typical driving cycles have been achieved compared with a standard car fitted with manual transmission.

The savings arise because for most of an average car journey the optimum gear ratio is considerably higher (up to twice as high) than is currently provided by the vehicle's highest gear.

Lucas now has prototype controllers on other manufacturers' cars and says that the philosophy and principles developed during its CVT research project are applicable to almost any type of CVT.

The group maintains that the experience gained places it in a strong position to meet future needs for control systems engineered to match combinations of particular transmissions, engines and vehicles (trucks and buses as well as cars).

Precise control

Another area which Dr Reasbeck suggests Lucas has a product ready to leave the laboratories also concerns fuel savings. Control of the harmful emissions from a car engine is involved as well.

Many of the functions of the internal combustion engine now need to be precisely controlled—and precisely measured—if emission control legislation is to be met.

Lucas scientists have used micro-electronics technology to develop transducers capable of making these precise measurements. ("Transducer" is a general term for devices capable of converting signals from one form to another, for example, from electrical to mechanical and vice versa.)

Air mass

Dr Reasbeck claims the work is pioneering in a real sense because the role of air mass flow into an engine is a principal factor determining both performance and economy yet attempts to measure air mass flow accurately have been made only in recent years.

He says Lucas is well-advanced with work on three types of air mass flow measurement units; corona discharge, hot wire (which is near production) and computation using the throttle pressure and temperature inputs.

The accuracy required from these transducers is such that new and highly sophisticated measuring techniques have had to be formulated to check them during development.

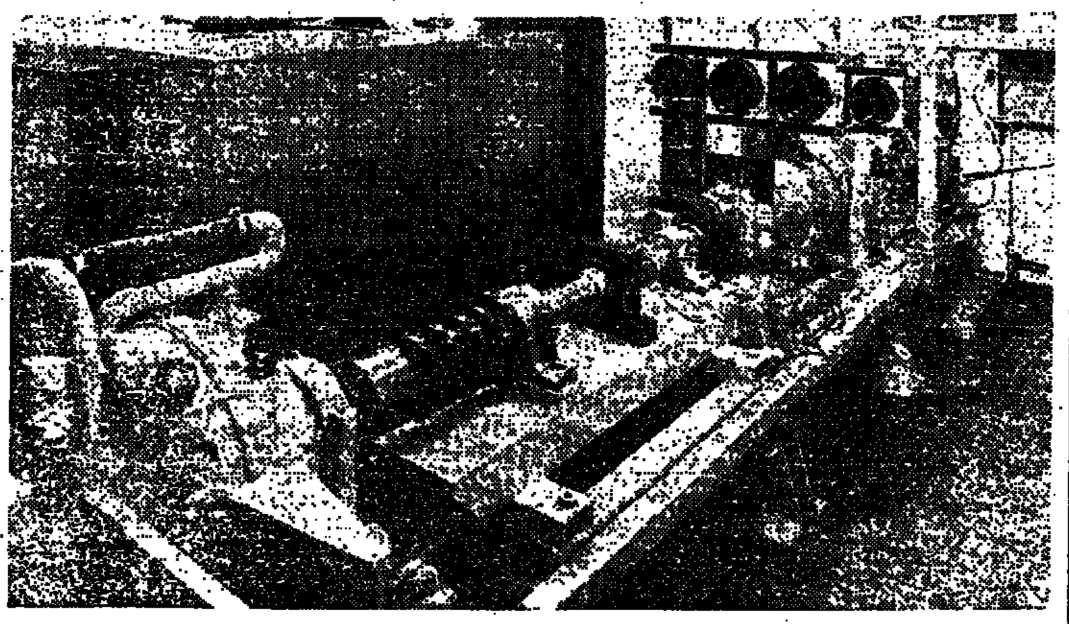
A computer-aided test system (CAT) was developed at the Lucas centre to provide a standard means of measurement and calibration.

Test cells

As part of Lucas's move towards control engineering for a number of applications, the centre has also developed control systems to convert standard robots into the "intelligent" kind. These can assemble a product, check it and, if it is not up to specification, disassemble, pick the right or better components and reassemble.

This allows flow production benefits to be gained even when a variety of products are going down the same assembly line.

The Lucas centre has four test cells, using other people's robots, and is about to install a fifth.



The Lucas CVT test rig

Load cell for subsea applications

A LOAD cell, hermetically sealed and designed for subsea applications to depths up to 600 feet has been designed by Ocean Technical Systems (Laurence Higgens, 01-493 9577). The unit of alloy steel is designed to measure shear stress and as a replacement for standard chain shackle pins.

Triumph Dolomite unit is functioning well

The CVT is the Perbury transmission which has been in development since the mid-50s and proved its potential in a number of projects.

Since the late 1960s it has been used by Lucas Aerospace for providing electrical power units for Harriers in service in the South Atlantic. (Writes Peter Cartwright).

In 1957 the Perbury CVT then at an early stage, was installed in a Hillman Minx and during 25,000 miles recorded fuel savings of 20 per cent.

In 1980, a "rolling heart" unit was originaly made for a Rover 3.5 litre V8 engine only 12 inches long and nine inches in diameter.

It is currently installed in a Triumph Dolomite being developed by BL technology. It is reported to be functioning well and providing 20-25 per cent fuel savings in favourable circumstances.

This is with a less sophisticated engine management system than Lucas. As the result of test bed work Lucas Research modestly claims 15 per cent average greater economy over a simulated range of driving conditions with up to 30 per cent and a further potential taking it up to 40 per cent.

Thrust bearing

Mr Forbes Perry, managing director of Perbury Engineering, and the man behind the project, has been backed by the British Technology Group. He claims 20-40 fuel savings depending on application.

The Perbury CVT is a development of the pre-war Hayes automatic transmission, and employs rolling, bearing technology.

Basically, the unit is a double ball thrust bearing with unused parts of the balls cut away to leave discs of material. These steel components roll on each other and power is transmitted through specially developed oily fluids which can be tailored according to application.

Gear ratio is a measure of the distances of the rolling contact points from the drive shaft centre lines. This gives a possible speed range of about 6:1. In the Rover 3.5 transmission for instance, the ratio varies from 2:7 reduction to 2.1 overdrive. The range can be extended by the use of epicyclic gears.

A unit for a 1.5 litre car would measure some nine inches long by seven inches in diameter, small enough to be placed behind or in front of the engine, or accommodated in an East/West configuration with front-wheel drive.

Because the Perbury CVT can provide zero output speed at full torque, it is equally applicable to electric traction vehicles, or those using a flywheel for energy storage, such as four-wheel-drive vehicles, agricultural tractors and single shaft turbine-powered vehicles.

The Perbury unit can be made in conventional engineering workshops with only one special purpose machine needed to grind the discs.

Sufficient units

It would probably need £10m to £50m over the next three or four years to make and develop a sufficient number of units for proving in field trials.

Eventually, it would probably need to be made at not less than 100,000 units annually on special purpose plant. Otherwise the viable volumes approach 5m.

Ticket terminals for travellers

BY GEOFFREY CHARLISH

A WHOLE new world could open up for the travelling public if a new kind of electronic ticket dispensing idea catches on.

NCR, strong in retailing electronics, has designed prototypes of a new family of terminals, NCR 1800, which are scheduled to go into full production next year. One of them, on show at the Design Centre, is configured for the airline industry and can, it appears, deal with virtually everything — reservations, ticketing, check-in and boarding.

But the system can be used by all sections of the travel industry, including railways, passenger ferries, coach services, and travel agents.

Used as an airline terminal, the 1800 enables passengers to find out about flights, make reservations through the airline's central computer, electronically debit payment for tickets and print/issue the ticket. It can also operate as a check-in and boarding terminal, providing boarding passes and baggage tags.

The machine can print existing ticket formats — the standard airline "books" used today — and can also be equipped to issue new magnetic stripe tickets on which the passenger's itinerary is electronically encoded in a stripe similar to that on a credit card.

Service 'menu'

NCR believes these single leaf, mag-stripe tickets are less expensive, less cumbersome, allow rapid self-service check-in and boarding, and enable the airline to implement further automatic accounting procedures.

The terminal presents to the user a large screen, keyboard, a slot for credit card insertion and a second slot from which the ticket emerges.

To start, the user sees a "menu" of service offered on the screen and makes his choice. He might select "ticket purchase," for example, and will then see a series of simple instructions. He inserts his credit card, which is held in the slot partially exposed — allowing the entire transaction to be stopped simply by removing the card.

At each step he is asked to check all the details coming up on the screen, particularly cost, and to confirm acceptance simply by pressing a button.

The ticket is printed in a few seconds and is issued when the passenger removes his card — making it impossible for him to forget it when leaving the terminal.

NCR says that the research programme has involved travel organisations in 13 countries and that much effort has gone into making the terminal entirely "friendly."

It is an important aspect, because such machines have to be acceptable not only to the airlines and their staff, but to the general public.

Form and content on the display screen are seen as the key point, because the user may have to cope with anything from the purchase of a simple shuttle ticket to a trip with several connecting flights.

Alarm check—wineglass style

BY ALAN CANE

TAP an empty wineglass and it rings clearly. Fill it with water and the sound is dulled. Now turn the glass inside out and tap it from the inside and you have a model of the technology behind Bestobell Mobray's new high level alarms for liquid filled tanks.

What is a high level alarm? It is a failsafe way of letting an operator know when a tank has been filled to, say, 95 per cent or 98 per cent of its capacity.

They are needed on ships carrying dangerous chemicals. Typically, such a vessel would have an array of these tanks, some filled with inert liquids, others filled with corrosive or inflammable substances.

Pollution regulations and international safety requirements these days insist that a warning device be fitted to ensure correct tank filling—and that device must be tested before the liquid is poured into the tank.

Bestobell already manufactures float-type systems but it argues that it is impossible to be sure that the system is working without considerable effort.

Infrared, sonic and capacitance systems fail on the grounds they are not intrinsically safe (voltages or current too high) or insufficiently sensitive.

In the Bestobell Mobray system two piezo electric crystals are attached to the inner wall of a stainless steel cylinder. The associated electronics drive a high frequency ultrasonic pressure wave around the cylinder wall.

If the cylinder is in air, a particular level of signal is received (the glass "pings"); in our analogy; if surrounded by liquid, the pressure wave is lost in the media and a lower signal recorded (no "ping"). The alarm is simultaneously triggered.

Bestobell says the system is approved BASEEFA and IMCO for industrial and marine use.

Future uses include industrial chemical storage and nuclear reactor safety. More on Slough 34646.

Microace a 'thinking dicer'

BY MAX COMMANDER

THE "thinking dicer"—the first of its type to be introduced by a British manufacturer—is claimed to permit diamond blade indexing within an accuracy of two microns.

The bench-top saw dicing machine is the result of a design by Loadpoint, the Swindon-based fine sawing specialists.

The machine will probably be of most interest to the semiconductor industry but is also capable of high speed fine sawing of glass, ceramics, ferrites, tungsten carbide and other materials.

Known as the Microace, the saw uses either a 600W or 900W three phase induction motor driven through an inverter controlled by a built in microprocessor to provide a blade speed range of 10,000 to 40,000 rpm.

The machine can accept standard 55mm diameter hub-type or hubless blades with a 20mm bore as well as conventional blades between 50 and 60mm.

The Microace can also accept resin bonded diamond blades. Resinoid blades can be used for precision slitting applications such as those performed on video recorder heads where ferrite materials are difficult to machine.

In the picture a 75mm diameter silicon wafer, containing medium scale integration, is set up on the Microace vacuum table ready for dicing into 3 x 4.5mm chips. The 55mm metal bond blade has a 25 micron wide cutting edge using a 3-6 micron synthetic diamond.

Dicers might like to call Stan Herbert (0990 23456) for more technical information.

Gallenkamp pH stick

GALLENKAMP HAS developed a pocket-sized pH stick able to give accurate compensated readings to 0.01pH. The liquid crystal display is powered by seven hearing-aid type batteries. Details on 01-247 3211.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Poor financial analysis blamed for weak U.S. investment

THE FUTURE prospects of many companies are being "seriously shortchanged" by *the willingness of managers* to look "through the reversed telescope of discounted cash flow analysis," according to two professors at the Harvard Business School. They also claim that executives have a mistaken *belief in the costs and benefits* of mergers and acquisitions.

The *discounting approach* has helped make companies reluctant to invest for two reasons, complain Robert Hayes and David Garvin, who both teach business administration. First, it is often based on misconcep*tions of the past and present* economic environment. And second, it is biased against investment because of "critical errors" in the way the theory *is applied*.

In a forceful article, "*Managing as if Tomorrow* Mattered," in the latest issue of the Harvard Business Review*, Hayes and Garvin suggest that the overwhelming commitment of American managers to DCF has contributed to their preoccupation with short-term financial performance, at the expense of the long-term commitment which characterises West German and Japanese industry.

Other influences cited by the authors include the short-term *criteria that are applied* both to the performance of individual executives, and—by the financial community—to corporate performance.

Hayes and Garvin also argue that companies fight *shy of* capital investment and research and development because of the alternative—but often illusory—"bargain basement" attractions of mergers and takeovers. "Corporate acquisitions are neither *a substitute for direct* investment nor a cheap way of acquiring plant and equipment," the authors emphasise, arguing that they only appear cheap because managers focus on theoretical and misleading market value-to-replacement ratios.

Bitten by the inflated "*hurdle* rates"—minimum rates of return—for proposed new capital projects, American managers have found reinvestment in existing businesses less and less desirable, complain the Harvard duo. "Under siege in a changing world, they recall the economic Camelot of the 1960s and believe that it still exists somewhere, waiting to be found outside their corporate bunker.

"Had they placed less faith in the misleading objectivity of their discounting techniques, they might instead be spending their time and resources reinforcing their own bunker's walls."

The force—even bitterness—of "Managing as if Tomorrow Mattered" is likely to cause much anguish among top American executives, as have two other Harvard Business Review articles by Professor Hayes in the past two years: "Managing our Way to Economic Decline" in 1980 (with William J. Abernathy) and "Why Japanese Factories Work" in 1981. Both have already had a considerable influence on the business world, abroad *as well as in the U.S.*

Hayes and Garvin argue that the various *discounting* techniques rest on arbitrary assumptions about profitability, asset deterioration, and external investment opportunities. They believe that much of the decline of investment in capital stock is the result of misconceptions about the changes that have taken place in these three critical variables over the past decade.

American managers have acted as though these variables have been *tending to* make direct reinvestment in their existing businesses less and less desirable, comment Hayes and Garvin.

Whereas the rate of asset deterioration has indeed been accelerated by inflation—and rising energy prices—the general perception of a long-term decline in corporate profitability is illusory, the authors maintain. The hurdle rate applied to potential investment opportunities is also frequently wrong.

Hayes and Garvin point to estimates by leading economists *that the overall rate of return* on equity for U.S. companies, after adjustment for inflation, has remained roughly constant *for about 30 years. Only during* the mid-1960s, when it rose to double its historical level of about 4.5 per cent, *did* this pattern change for a short time.

Yet *many executives* view the mid-1960s rates as the norm, rather than an aberration. Even though a company's profit margin may have dropped from 10 per cent in 1965 to 5 per cent today, the 1965 figure is not a reasonable reference point for *historical* comparison, *say* the authors.

Nor, indeed, is the 5 per cent figure always reliable, claim Hayes and Garvin. "When *managers attempt to net out* the impact of inflation on the profitability of their businesses, they usually address *only the asset side of the balance-sheet.*" They adjust their profits downwards by recalculating the value of inventories and the cost of asset replacement, but they rarely also acknowledge that their long-term debt also declines in value during an inflationary period.

Despite executives' perception of a decline in profitability, and their recognition of an increase in the rate of deterioration of *their companies' assets, Hayes* and Garvin say that managers have failed to make a corresponding reduction in the hurdle *rates they use for new projects in the capital budgeting process.*

These rates are typically quite high, they say, often in the range of 25 per cent to 40 *per cent, and there is some* evidence that they have been on a rising trend over the past decade; a recent survey, for example (which the authors do not name) showed that about a quarter of American manufacturing companies *required* expenditure on the modernisation and replacement of equipment to pay off within as little as three years.

Yet the hurdle rates used by many companies "bear little resemblance either *to (their)* real cost of capital . . . or to the actual rates of return . . . that (they) can reasonably expect to earn from alternative *investments.*" (These are the two bases on which companies calculate discounting and hurdle rates—as Hayes and Garvin point out, there is disagreement over which approach is better.

"Again and again we have observed the use of *pre-tax* hurdle rates of 30 per cent or more in companies whose actual pre-tax returns on investment were less than 20 per cent," they continue.

"As with most of the arbitrary numbers that find their way into a company's systems and procedures, these hurdle rates are often used without question, even by executives who profess to be open-*minded.*"

As if all this was not enough, Hayes and Garvin argue that there are other ways in which discounting methods are biased against investment in new capital stock.

For one thing, present-value comparisons are especially difficult to make if the alternative projects under review have different lifetimes. Narrow use of the present-value criterion will, for example, almost inevitably support the expansion of an existing factory rather than *the building of a new one.* The initial investment is normally much less, and the returns more immediate. But a series of such decisions "can lead to ponderous, outmoded dinosaurs that are easier prey *for the smaller, more modern,* and better-focused plants of competitors."

The threat implicit in discounting techniques also extends *to the very ability*—and willingness—of managers to ward off the attacks of aggressive competitors, maintain Hayes and Garvin, using the example shown in the inset.

In sum, present-value calculations "support a decision to operate on the goose and remove some of its golden eggs prematurely, even though doing *so impairs its future egg-laying* ability," say Hayes and Garvin.

As their "logic of disinvestment" example shows all too clearly, *it is not only the goose's* yield than can be affected. The corporate bird that sets its hurdles too high may end up being killed off by the competition, or eaten alive.

* *May-June, 1982. Reprints available from Reprint Service, Harvard Business Review, Boston, MA 02163, U.S.A. Telex/TWX 710-320-6737.*

Christopher Lorenz

THE DANGERS OF A 'DISINVESTMENT SPIRAL'

HAYES AND GARVIN cite the cases of two companies that share the market in a price-sensitive industry. "Initially, both use the same production processes and have similar cost structures. A new manufacturing process, however, promises to reduce variable costs *significantly*. *Company A*, with a high hurdle rate, rejects the investment out of hand as being in*sufficiently* profitable; Company B with a lower hurdle rate, decides to buy the new equipment.

"Both companies perform *similar discounting calculations* to weigh the advantages of the proposed investment. They *arrive at opposite conclusions because of the differences in the* hudle rates employed and in the importance placed on maintaining competitive vigour. In theory, both should be satisfied with the results.

"Company B, once its new equipment is in place, quite naturally proceeds to compete aggressively for market share by lowering prices. Its new manufacturing process, after all, gives *it much lower variable costs and* requires high production volumes for maximum efficiency.

"Can Company A respond? Its outdated equipment places it at a distinct competitive disadvantage. Moreover, its competitor's price reductions have so reduced the profitability of its existing business that the investment required to upgrade its *facilities looks even less attractive than before. At the least,* Company A will lose market share; at the worst, it could be driven out of the business entirely and, perhaps, be *forced* to use its remaining capital to acquire another business, one apparently better able to meet its high hurdle rate.

"Many American companies today find themselves in a position much like that of Company A. The problem is not that *reliance on discounting techniques inevitably leads to inaccurate* results but rather that managers can all too easily hide behind the apparent rationality of such financial analyses while sidestepping the hard decisions necessary to keep their companies competitive."

Hayes and Garvin argue that companies often become trapped in this sort of "disinvestment spiral"—deferred investment leading to reduced profitability which *further* reduces the incentive to invest.

Who gets most in Europe

WHILE THE pay of top managers in *Europe* generally kept ahead of inflation in 1981 French management alone shows signs of restraint, according to a new survey.

*The study**, carried out annually by Management Centre Europe, part of the American Management Associations organisation, covered around 3,600 main board directors.

Despite their apparent sacrifice, top French managers are still among the most highly paid in Europe.

At the gross level no basic changes in league positions were uncovered by the study. Top managers in Switzerland continue to earn the highest salaries with British managers languishing on the bottom rungs of the *ladder of the most industrialised* European countries.

The survey shows that top *managers' salaries in Switzerland* increased by 7.5 per cent. A chief executive there now earns a basic $93,000. On top of this he may earn $26,000 in *bonus payments and the equiva*lent of $22,000 in perks.

Other main board members—including marketing, manufacturing, finance and personnel directors — all earn between $56,000 and $64,000 basic with an additional $20,000-odd in bonus payments and perks.

Comparable salaries in the UK are generally just over half as much in spite of a 12 per *cent increase last year.* A British chief executive now earns around $56,000 with an aditional $28,000 in bonus payments and perks.

Lower down the scale, marketing, manufacturing, finance and personnel directors earn *between $30,000 and $38,000* with bonus payments and perks amounting to between $12,000 and $15,000.

Top executives in Germany, *Belgium, Denmark and Holland* all earn more. Only their counterparts in Italy, Finland, Greece and Portugal earn less.

Taking all the countries *surveyed the ranking order of* directors seems to be similar. After the chief executive, the marketing director is the next highest paid, followed by the *finance director and then either* the manufacturing or personnel director.

**Top Management Remuneration—Europe/1982, published by MCE, avenue des arts 4, Brussels. Price BFr 14,800 plus postage.*

Arnold Kransdorff

TOP MANAGEMENT PAY 1981
(Including Bonus Payments and Perks)

	Chief executive $	Marketing director $	Manufacturing director $	Finance director $	Personnel director $
Belgium	92,000	64,000	55,000	57,000	49,000
Denmark	82,000	63,000	61,000	55,000	49,000
Finland	82,000	47,000	46,000	46,000	42,000
France	96,000	62,000	55,000	59,000	54,000
W. Germany	103,000	74,000	70,000	64,000	57,000
Greece	51,000	36,000	35,000	33,000	*
Italy	74,000	47,000	40,000	45,000	38,000
Holland	87,000	61,000	55,000	58,000	52,000
Norway	70,000	48,000	47,000	45,000	*
Portugal	28,000	22,000	19,000	22,000	20,000
Spain	74,000	55,000	44,000	53,000	38,000
Sweden	80,000	53,000	49,000	51,000	46,000
Switzerland	141,000	88,000	77,000	86,000	82,000
UK	84,000	52,000	42,000	48,000	44,000

* Not available.

Source: Management Centre Europe

Business courses

Foreign Exchange, London. Part A June 16-17. Part B June 23-24. Fee: Part A £360 (plus VAT), Part B £360 (plus VAT), Parts A and B £600 (plus VAT). Details from Conference Secretary, Weisweiller Adfos, 1 Hillsleigh Road, London W8 7LE

Office of the Future, Brussels. June 28-30. Fee: BFr 32,000 members, BFr 36,000 nonmembers of the International Management Association. Details from *Management* Centre Europe, avenue des Arts 4, 1040 Brussels, Belgium.

Changing Manufacturing Strategy in the West—the key *to beating Japan*, London. July 6. Fee: £120 (plus VAT) members, £140 (plus VAT) nonmembers of the British Production and Inventory Control Society. Details from Seminar Secretary, BPICS, 3 The Square, Sawbridgeworth, Hertfordshire

Profitable Time Management, London. July 29-30. Fee: £180. Details from Tack International, Tack House, Longmoore Street, London SW1V 1JJ

***The Marketing of Training* Services within your organisation**, Uxbridge. July 12. Fee: £110. Details from The Secretary, Management Programme, *Brunel University, Uxbridge,* Middlesex.

Marketing in Focus, Slough. June 21-July 2. Fee: £640 (plus VAT). Details from The Registrar, Urwick Management Centre, Stoke Poges Lane, Slough Berkshire, SL1 3PF

In-House Insurance Administration, London. June 24. Fee: £98 (plus VAT). Details from Finborough Seminars, 364 High *Road, Woodford* Green, Essex 1GH 0XH

Tax Saving in your Business, London. June 18. Fee: £12.50. Details from Thames Enter*prise Agency*, 19 Penhall Road, London SE7

THE ARTS

Cambridge

Hedda Gabler

by MICHAEL COVENEY

It was once said of *Hamlet* that the lead role was a hoop through which every young actor of serious ambition must sooner or later jump. The same could nowadays be said of *Hedda* and relatively young actresses. Susannah York takes off with a confident leap, manages a few interestingly intricate somersaults and lands shell-shocked once more at ground level. The hoop, in her case, was in flames. Waiting for her on the other side is a truly vampiric Judge Brack, who spreads the tails of his frock coat like predatory wings on Hedda's sofa to await the parting shot.

Brack's hair is arranged in a triangle at the top of his forehead. This may be a sinisterly metaphoric ploy on Tom Baker's part. Brack, after all, wants to share Hedda with Tesman. Or is it a pubic gesture? Either way, Mr Baker's judge is a grisly undertaker of upright bearing, noble profile and strangely sepulchral intonation. It is certainly an original reading.

Donald McWhinnie's production is one of the most morbid I have seen. When Tesman's Aunt Juliana (Irene Handl) utters misgivings at this large room being used for everyday purposes, you see what she means. Voytek has designed a circular mausoleum decked out with huge drapes, three of which are decorated with peacocks (another nudge?), and intimidating vases of flowers placed on pedestals. The stove into which Hedda will stuff Lovborg's manuscript is centre stage, an ornate pillar rising out of it to the ceiling. This is no place for living.

Miss York conveys the impression immediately that she has made a terrible mistake in marrying the academic Tesman (Ralph Bates). She confides her knowledge of this to the bust of her dead father, rubbing her cheek against the General's image in one of the three gestures of physical intimacy she allows herself all evening. Her voice comes rushing through in a husky mezzo, not a register I have associated with this actress before—certainly not over such a sustained period.

Tom Bell's Lovborg seems at first sight a startling way of doing the part. Not all that young, his passion is wrapped up in anxious huddle, hands clawing at the precious life work between hard covers. But when the explosion comes, it makes no sense at all unless we view Lovborg as a schizophrenic.

Miss York's other expressive moments come when she spreads her legs, yawns and retches, before delivering the manuscript to the fire; and then, just afterwards, when she surprises Tesman with an oddly impassioned kiss before withdrawing in revulsion. The performance is intelligent, but curiously unmoving until the final moments when the nature of her relationship with Brack is at last revealed. This scene has the tension of a good thriller, and the final curtain descends with cruel abruptness.

ICA

The Execution

An historical epic may be expected to enlighten us on some aspect of past events. The best of the genre can offer new angles of approach, and stimulate the appetite to learn more. Melissa Murray's 3½ hour endurance test for Monstrous Regiment is very far from the best.

Here we learn that several upper class Russian women studied abroad during the late 19th century. In addition to their official courses they gained a grounding in political theory, and many returned to organise popular resistance to the Tsar. He was assassinated in March 1881 by a group called The People's Will, which included some of these women.

A theatrical form which depends on a succession of loosely related events, culminating in a revolutionary act, makes heavy demands on the writer. It is not enough to have done the research. Some political and philosophical tension, some interplay of ideas, must hold our attention where characterisation and dramatic conflict is superficial.

These Lefties would kill us with talk, relating their life stories, each other's life stories, spilling out unexceptional rhetoric and familiar maxims with flat conviction. Do Russions really take twice as long to say anything as we do? Their tedious speeches are delivered in very correct, clipped English without the slightest elision to deflect from the period foreignness. The peasants, in contrast, burble incomprehensibly in Mummerset.

Gillian Hanna plays Vera, the central figure and, against odds, manages to create an individual of sympathy and depth. The remainder of the cast share a variety of roles with less success. The ruling class are particularly unsatisfactory, a set of highly caricatured twittering idiots, in contrast to the naturalistic if ultra-sober politicos.

Sue Dunderdale directs this relentless march, on a set designed by Gemma Jackson, a piece of slippery parquet which has the difficult task of serving for interiors and exteriors from Zurich to St Petersburg. If you decide to see it, do stay until the end. The final scene, the moments prior to execution are extraordinary, terrifying, and theatrically superior to anything else in this worthy, wordy, saga.

ROSALIND CARNE

14th century tithe barn at Bredon in Worcestershire under repair after a fire—donations to the National Trust

Architecture

Diversions by the book

by COLIN AMERY

The prospect of another Bank Holiday, this one falling somewhere between Argentine National Day and the birthday of the Yang di-Pertuan Agong in Malaysia, does turn the mind to thoughts of agreeable countryside diversions.

That strange and wonderful institution the National Trust must look upon these national high days with a certain feeling of disquiet. Opening the treasure houses of the nation to sporadic invasion is a delicate business. I recently looked in at one of the Trust's most popular properties, Chartwell in Kent. This is a house that has little architectural pretension but it does have the atmosphere of the home of a great statesman with his own idiosyncracies. The large car park was carefully sited and full. The horrible modern restaurant was tucked into the slope and you could see that every effort had been made to try and make it go away.

But what had replaced any sense of visiting someone's house was the feeling that you had become one more cog in the tourist trade. The Trust is aware of this but I sense a little uncertainty about how to tackle it. Car parks, shops, signs — however tasteful — all impose a destructive presence on the very things that they try to support and preserve.

One answer to the invasion problem is diversionary tactics and the Trust's propaganda and information services have started to publish books that divert by giving information about lesser known areas and places. *The National Trust Book of the Farm* by Gillian Darley and *The National Trust Book of Long Walks* by Adam Nicolson are two recent arrivals that should be essential reading for anyone contemplating a Bank Holiday escape or a foray outside the tourist routes.

Gillian Darley's book is in many ways a pioneer. Like her earlier work on villages where she explored the social experiments in both historical and architectural terms, the Farm book examines the whole idea of the farm in the nation's history. It is a big subject and it is Miss Darley's discipline as an art historian that defines some of the parameters.

With the help of the moody and atmospheric photographs of Pamla Toler the book always looks at the buildings in their settings. The harmony and logic of the construction of older farm buildings is an object lesson for all who build anywhere. The connexions with geology, landscape, local materials and colour are all carefully tackled in this book.

Gillian Darley has divided England and Wales into nine regions, and in each one the characteristics of the landscape and the patterns of farming are explored in relation to the farms and buildings that have resulted. In the earlier, more general, sections of the book she provides the reader with sufficient architectural ammunition to recognise a cruck beam, box-frame, or even a laithe-house without smothering him with jargon.

In a week when the Prince of Wales has demonstrated the value of converting farm buildings into homes for small industries on his own estate this book shows there is a huge untapped resource of buildings that should be preserved. In our cities we have seen how easy it is to lose the smaller everyday old buildings in vast quantities. In the countryside there are plenty of survivors. This book is optimistic for their future and it shows you how to look at them and to see how perfectly they belong to their settings. It is salutary, thorough and delightful and extremely timely.

Adam Nicolson striding across the countryside offers another way of learning about surroundings. His walks are all more than 80 miles long, and one is 500, but he is a perceptive walker who is not in the game for reasons of fitness or physical prowess. He is not a preservationist but an observer of the processes of life in the landscape and it is this that makes him such a good companion.

I liked the way he began to fel that the walk is such a linear thing that any thought of the slightest detour to the side becomes a major worry. The routes covered include many of the official long paths, like the Pilgrims' Way and Offa's Dyke. The most important and obvious thing about his book is that it is about walking—and it removes the reader from the car and the crazed speed at which we so often look at the passing scene.

With the clear and well designed *National Trust Atlas* under your arm, and J. M. Richards' *National Trust Book of English Architecture*, you are equipped to tackle some of the remoter pleasures of this country that are sheltered under the benevolent umbrella of the National Trust. Jim Richards gives you an erudite framework to help you look at buildings and he is wise to point out that the best architecture was always the product of change rather than of imitation or preservation alone.

Careful propaganda is the National Trust's best weapon; the need for better guide books and interpretative writing has never been stronger. It ought to be possible to look to the Trust as a potent educational force. These books are only a beginning.

The National Trust book of the Farm by Gillian Darley (£11.50). *The National Trust Book of Long Walks* by Adam Nicolson (£10.95) and *The National Trust Book of English Architecture* (£12.95) are all published by Weidenfeld and Nicolson.

The National Trust Atlas is published by George Philip (£9.95).

Festival Hall/BBC-2/Radio 3

Horowitz

by DOMINIC GILL

Nineteen-eighty-two has already proved an outstanding vintage year for pianists — in the first six months alone London will have heard Alexeyev, Ashkenazy, Barenboim, Bolet, Brendel, Cherkassky, Curzon, Gilels, Lupu, Michelangeli, Ousset, Perlemuter, Pollini, Serkin and Zimerman. And now, to crown an extraordinary season, the Grand-Romantic master of them all, Vladimir Horowitz, returns to Europe for the first time in more than 30 years to give two recitals in the Festival Hall.

For many it will also have been their first, and perhaps their only, chances to hear a much-loved and, in the simplest sense of the world, legendary artist playing live on stage. Many of those present will have grown up, like myself, with Horowitz on record: as a child in the 1940s with his pre-war 78s, and in the early 1950s with his new electrified, and electrifying, performances of Liszt and Chopin, and of concertos with Reiner and Toscanini. They will have mourned his 12-year silence from 1953 to 1965; and rejoiced in his return, and in the spectacular flood of new recordings which accompanied it. For many decades he has been a familiar figure, intimately known but distantly perceived—admired only by the intervention of needles and magnets, and through the hiss and crackle of static.

It was the strangest experience last Saturday afternoon to hear Horowitz play, and not to have to turn him over. Stranger still, and more thrilling, to hear without any medium between us except the air that unmistakable sound: the explosive bass, the clang of super-brittle hammers, the featherlight crystalline treble, the close, brilliant focus. Exciting above all to discover (had one really wondered?) that the playing is no figment of the recording engineer's imagination, the essential character and colour no electronic fantasy. On record Horowitz may sound larger than life: but in live performance he sounds larger still.

Saturday's musical event, with its Royal Presence, splendid host of Royal Opera House Appeal £100-ticket holders, and a score of TV cameras in attendance, was somewhat liable to be overshadowed by the Occasion. Not everything in it was purest vintage Horowitz. In the two Chopin works especially, the Polonaise-Fantasy and the G minor Ballade, there were some finger-fluffs and a few uncharacteristically cautious ritardandi at climaxes which the master in his younger days might have avoided. But that is to view the performances only from the standpoint of physical excellence (here in any case quite astonishing enough in a pianist of 77 years). At their heart, their musical centre, they were immaculate: the Polonaise above all, perhaps the most enigmatic of all Chopin's piano works, full of wildness and mystery, sudden fierce contrasts, jubilation and melting sadness combined — fragile paradox that music alone can encompass.

(A parenthesis at this point which has been biding its time, but is no longer restrainable: the assertion that "Horowtiz illustrates that an astonishing instrumental gift carried no guarantee about musical understanding" is possibly the silliest single sentence in the whole of the New Grove Dictionary of Music and Musicians. Only the most arid academic sensibility can reduce music-making to the matter of a "guarantee," or fail to perceive that, whatever the stylistic argument, Horowitz's extraordinary alchemical gifts, fundamentally and profoundly musical, go far beyond considerations of mere mechanical expertise).

In the six Scarlatti sonatas with which he opened the programme, Horowitz seemed to be testing the air: delicate, effervescent creations, hyper-romantic in their treatment but in spirit never cloying or overblown. Every one had a memorable feature: perhaps most insinuating of all, the B minor sonata L33, against an elaborate wash of pedal and echo effect, a single unbroken line of melody outpoured.

The fluid, floating rubati of his Schumann *Kinderszenen* spoke eloquently of an age of pianism nearly past. The metrical shocks which can sound so vulgar in lesser hands (though they are often justified by close examination of the score) here seemed no more than an integral part of the texture: could such a complex web of reference and resonance be achieved in any other way? Rakhmaninov's second sonata was the recital's tour de force: both the work itself, and Horowitz's account of it, heavy with period perfume, marvellous distillations of nostalgic ardour, every page alive with inner conversations, flashing colour. He ended with three encores: Chopin's A flat waltz op 69, Rakhmaninov's *Polka de V.R.* and Skryabin's D sharp minor Etude, together a magical summary in miniature of his art. The ticket prices are outrageous: but if a value has to be put on it, then £50 after all does not seem too much to pay.

Vladimir Horowitz rehearsing at the Royal Festival Hall

Malvern Festival

Shaw and Maugham

by B. A. YOUNG

Before the play runs into farce with the entry of Mrs George, Shaw's *Getting Married* has aired seven or eight important criticisms of Anglican marriage.

Everything suggests that when Mrs George turns up she is somehow going to sort things out; but all she does is provide a mature actress with a good show-off part. In this case it is the delightful Barbara Leigh-Hunt, and though I think she should try to be commoner and uglier, she is worth waiting for. However, the complications that have begun when Edith the bride and Cecil the bridegroom make independent last-minute decisions not to marry are simply surrounded by more complications not truly relevant to Shaw's theme of showing up marriage as a confidence trick.

Besides Miss Leigh-Hunt in her municipal regalia, this last part of the play gives us Father Anthony, in which Paul Bacon's glittering performance makes almost everything else dwindle into everyday competence. Yet in spite of Father Anthony and Mrs George and Bernard Shaw, the play ends up with marriage.

What makes it such a delight is that of all the 13 characters, only one, the Beadle, is less than a good part. Often there are nine or 10 people on the stage together, all talking amusingly. The three brothers are strongly cast — Andrew Cruickshank as the Bishop of Chelsea, Frank Middlemass as the eldest son Reginald, Michael Malnick as the General. (It sounds like the Denning family.) Judy Geeson is seductive as Reginald's young wife, so nearly parted by divorce, so determined to go on looking *after him*; and Karen Ford as the marriageable Edith projects the image of a devoted young reader of the Guardian's Women's Page.

I couldn't quite accept Ian Lavender as St John Hotchkiss; such a determined snob must radiate superiority more visibly. Anthony Hyde as the reluctant bridgegroom has a way of detaching himself from the proceedings and staring vacantly into the air that suits the character well. Renée Asherson as the Bishop's wife, Hilary Tindall as her sister Lesbia and Kenneth Connor as Collins the omnipotent greengrocer complete a likeable assembly.

The production began in Guildford and has been in cold storage since, until, refreshed by some new players, it has been brought forward for this pleasant festival (which on Tuesday and Wednesday produced its annual nightingale for us). Clifford Williams is the director; he could have done with some more rehearsal time, I suspect. The Bishop's 11th century Palace kitchen is by Farrah; and the kindly sponsor is Lloyd's Bank.

The festival's other play is Maugham's *Our Betters*, in the Nottingham production I saw last February, but with some cast changes. The bizarre Belgravia world that Maugham wrote of in 1917, full of rich American women married to complaisant noblemen and supporting young lovers, is almost beyond our belief today. It certainly seemed beyond some *of the company's belief*; they play it for drama rather than for truth, and Maugham's crisp dialogue tends to lose its wit under the waves of emotion.

Barbara Jefford, Phyllis Calvert and Muriel Barker are the senior American dragons—a Lady, a Duchess and a Principessa. The new young pair are admirable. Lois Butlin as Bessie has enough of her sister about her to make us mistrust her even in her sweeter moods; and Lord Bleane, played by Michael Siberry, born in Malaysia and trained in Australia, is a young English aristocrat to the life. Hear him say "Oh" when Bessie says she might refuse him: it's exact. Bill Buffery continues as the nice young American. Fleming Harvey, and Richard Mayes as the nasty old American, Fenwick. Richard Digby Day is the director and the scenery (much appreciated) is by Trevor Pitt.

Restoration of "Last Supper"

Olivetti has announced plans to finance the cost of completing the restoration of Leonardo da Vinci's *Last Supper*. Managing director Carlo de Benedetti said his company would spend whatever it takes to restore and protect the 484-year-old fresco

Nigel Gosling

With the death of Nigel Gosling on Friday, criticism has lost a distinguished and perceptive writer. As art critic of The Observer during the 1960s and '70s he provided commentary which reflected his own refined and far-ranging tastes: his books on Nadar, Gustave Doré and on Leningrad are lasting testimony to this. At the same time, and until illness curtailed his theatre-going during the past months, he was (with his wife Maude Lloyd, that eminent dancer with Ballet Rambert) Alexander Bland, The Observer's dance critic.

Alexander Bland made a first appearance in Richard Buckle's magazine *Ballet*; thereafter the pseudonym was associated with criticism that bore all the hallmarks of Gosling's ever-questioning and witty intelligence allied to the qualities that had made Maude Lloyd so important a dancer. A loving understanding of the past and a generous interest in the new characterised Nigel Gosling's writings: his gentleness as a person did not disguise a sharp and lively mind, and an exceptional kindness of manner was matched by an exceptional integrity of judgment. His books on ballet — *The Dancer's World*, *The Nureyev Image*, *The Royal Ballet* — will be permanent and illuminating reminders of his importance.

CLEMENT CRISP

Cannon and Ball for Christmas

The first London Christmas show has been announced—Cannon and Ball are to head a spectacular at the Dominion Theatre from December 16 for seven weeks. It marks a West End debut for the duo

1982 business sponsors of the arts awards

The Association for Business Sponsorship of the Arts has launched its 1982 Awards Scheme in association with The Daily Telegraph. The scheme, now in its fifth year, is designed to focus attention on the support business organisations are now providing the arts.

Judges of the 1982 nominations will include Lord Birkett, Mr Nigel Broackes, Mr Albert Frost (chairman), Mr David Lewis, Miss Jean Muir and the Duke of Westminster.

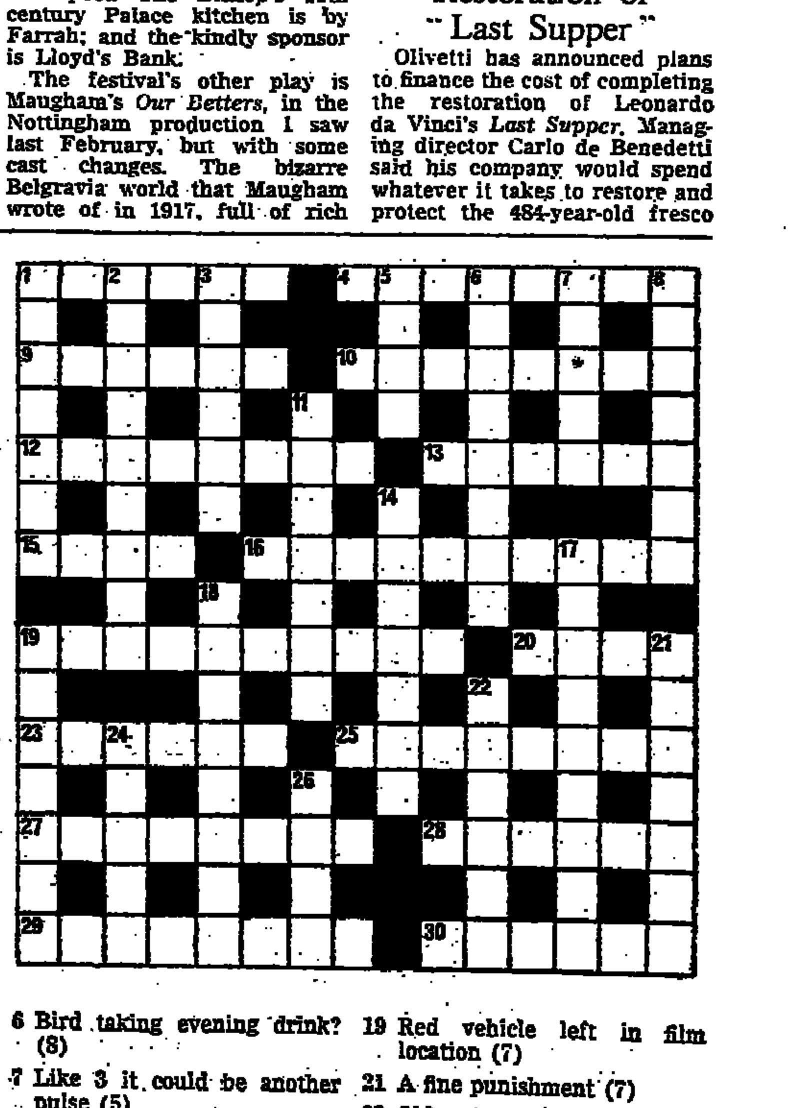
Washington Ballet's European debut

The Washington Ballet will make its European debut in July at the Festival of Two Worlds at Spoleto, Italy, with four performances featuring the works of resident choreographer, Choo San Goh.

Later in the year, the company will return to Europe for appearances in Paris with Peter Martins and Heather Watts of the New York City Ballet, and in Spain and Luxembourg.

The dancers will also perform in Colombia in June to help mark the opening of a new theatre in Barranquilla.

F.T. CROSSWORD PUZZLE No. 4,879



ACROSS

1 Provide drink with a twist (6)
4 Attractive feature of a Pole? (8)
9 An egg I cracked is maturing (6)
10 Parasite that an airfield is likely to have (6-2)
12 Phalanx found on foot (3-5)
13 Fixed a place for horses (6)
15 Animal returning in a rush (4)
16 Our title in explosive military display (10)
19 Amphibian fire-fighter? (10)
20 Retain in part of castle (4)
23 Trying to make first-class pottery (6)
25 Domestic play on words from the south, or just a rough yarn (8)
27 Fast frozen water left, but it enables a tree to breathe (8)
28 Food, we hear, in instalments (6)
29 Lee's last arrangement for part of a mosaic (8)
30 Lean from tavern in space (6)

DOWN

1 Talk superficially on second subject (7)
2 Fragmentary part of course, or courses (9)
3 Ten ill unnaturally, and having little pulse (6)
5 A container left open (4)
6 Bird taking evening drink? (8)
7 Like 3 it could be another pulse (5)
8 Satisfied in substance (7)
11 Bill and airman sum up (7)
14 Licence from around ebbing river (7)
17 Immunity without purchase (9)
18 Almond protein making a fellow eat (8)
19 Red vehicle left in film location (7)
21 A fine punishment (7)
22 Old instrument making soldiers nod (6)
24 Diminished by sum in exchange (5)
26 Ancient port to distribute (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

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Monday May 24 1982

Brussels: a way forward

TODAY'S MEETING of the EEC foreign ministers in Brussels will inevitably be overshadowed by events in the Falklands. Support for Britain, which began to weaken slightly a week ago, may be put under further strain by the escalation of the conflict. Yet the British landing is consistent with the Government's position from the start — that force may, in the end, be the only way of securing the withdrawal of the Argentine troops.

EEC Governments cannot be in any doubt that Britain has been negotiating in good faith for a peaceful settlement. But they will need to be reassured about Britain's continuing willingness to seek a solution which, while in no sense *rewarding aggression, does not* leave the Falklands as a running sore in relations between Europe and Latin America.

We hope that continued support for Britain over the Falkland Islands will be accompanied by an attempt on the part of the EEC as a whole to repair the damage caused by the fiasco over farm price increases.

Suggestions

It is a good sign that the immoderate language used after Britain, Denmark and Greece were voted down last Tuesday, has been toned down since. But much thinking needs to be done both about immediate issues and, more important, about the *nature and future of the Community.*

The foreign ministers have the opportunity to get on with that task. The Community budget with the British claim to a rebate of London's contributions, is on the agenda. It is here that the important British interest vainly invoked last week really lies — not in the details of farm pricing. Skilled diplomacy and tolerance on all sides could repair much of last week's damage.

An ill-tempered meeting would do great harm and would add strength to suggestions that the Community should evolve towards a two-tier structure, excluding Britain from the inner circle. We deplore these suggestions. Mrs Margaret Thatcher, the Prime Minister, was right to reject them when President Francois Mitterrand of France hinted at the idea. But a curt rejection is not enough. Mrs Thatcher must face the fact that M Mitterrand was picking up an idea that has been ventilated before among older Community members irritated with Britain.

More than British national pride is at stake in this matter. There are already signs that the recession is causing EEC members to seek national solutions to their economic and industrial problems. In a wider political context, East-West tension requires more than a glorified free trade area in Europe.

Principle

It is unrealistic to believe that a day is in sight when member states of the Community will readily submit to the full principle of majority-voting, as envisaged in the Treaty of Rome. But the principle was not expunged by *the Luxembourg compromise of* 1966 which introduced a possibility of national vetoes upon which Britain banked last week. All that happened at Luxembourg was that the six members of those days tacitly agreed to refrain from majority-voting if one of them invoked important national interests.

When Italy and Germany last November proposed an attempt to infuse new life into the Community, they did not suggest abandoning the Luxembourg formula. But they *did* want to make it harder to veto decisions. That proposal is worth following up, the Foreign Ministers would be unwise to get tied up in a debate about this, but it would be helpful if *they could tacitly admit that* vetoes ought not to be applied for purely tactical reasons. This would amount to no more than acknowledging the lessons of last Tuesday.

Objective

The ministers should apply themselves earnestly to finding a fair compromise on the British budget rebates. A one-year settlement would be better than nothing. But such *an agreement, whether for* one year or for three, would only store up more trouble for the future unless it was seen as a stepping stone to something more constructive. The aim must not be merely to satisfy a justified British grievance, but to provide an impetus towards restructuring the entire budget.

The most important objective of all is that the Community should recognise that the political and economic interests which bind it together are much greater than any single issue of contention.

Korean finance under strain

South Korea's President Chun Doo-Hwan has moved promptly to limit the political fallout from a financial scandal. It erupted two weeks ago in the country's unofficial "kerb" *market and has since spread the* taint of corruption from bank presidents and business executives even to one of his wife's relatives.

In accepting the resignations of half of his 22 man Cabinet, as well as those of senior members of his own political party and of top banking officials, the President has done all that anyone calling for heads to roll could expect.

Root causes

His decision to retain his two most senior economic ministers, though he has said he holds these two men morally responsible for the scandal, underlines the fact that he must now shift his attention to the root causes of the problem in the country's financial sector and to the damage done to Korean industry. The President acknowledged at the weekend that he needs his economic ministers to stay on to sort out *the economic mess.*

Illicit loan markets seem to be a commonplace in many developing countries where the enthusiasm to accelerate economic growth and industrial development has outpaced the *ability to establish sophisticated* financial institutions to meet their borrowing needs.

Nowhere is this dilemma more obvious than in South Korea. Rising from the ashes of the Korean war, the country *has over the past 20 years* achieved one of the fastest economic growth rates in the world.

Successive Korean governments, keen to maintain a steady supply of reasonably cheap money to priority industries, have fixed interest rates at an artificially low level. This tempted many small savers to seek alternative, more profitable, places to invest.

At the same time, governments keen to restrain money supply growth and concerned to limit the level of public borrowing found they could not reconcile these aims with industry's seemingly insatiable appetite for funds. Add to this the extreme conservatism of Korea's banks, which maintain to this day strict collateral requirements on borrowers, and the momentum towards rapid growth of an illicit money market *was irresistible.*

Offering interest rates often twice as high as those offered by legitimate financial houses, the unofficial market became a magnet for the savings of housewives and small traders. It was also a ready way of avoiding taxes, and of investing black money.

When economic recession hit the Korean economy late in 1979, companies previously able to raise new investment funds through share issues on Korea's *infant stock market found this* source of finance drying up. Most companies had no option but to turn to operators on the kerb markets.

Apart from the political pressure to clean up the financial markets, the Government now faces an immediate need to help the many small companies who relied on kerb finance. The market never officially closed during the crisis, but fresh lending froze, and most companies promptly shut down their links with it for fear of being implicated in the scandal.

Responsibilities

Some emergency measures have already been announced. But to get to the heart of the problem, the Government will have to work quickly to establish new sources of finance, while tightening its supervision of existing banks and of the borrowing activities of small *and medium companies. It may* be necessary to free interest rates if investors are to be lured on to the official market. The strict terms on which financial institutions lend money may have to be relaxed.

It would be misguided if President Chun felt that his responsibility for such a damaging financial scandal could end with the symbolic dismissal of ministers, government officials and government party organisers. *Rooting out* people will not root out the problem. Korea clearly needs to reform a financial sector which has failed to develop with the rest of Korea's economy.

FOREIGN EXCHANGE DEALS

Sheikhs of the currency markets

By David Marsh

IN THE foreign exchange trading room of at least one bank in the City, excited dealers are apt to shout out "Vroom, Vroom!" when the mighty Volkswagen rings up to buy or sell currencies—a signal that the dollar/D-Mark rate is soon going to move very fast.

High up in its Moorgate office block, British Petroleum has a row of clocks in its foreign exchange department telling its dealers the time in Hamburg, New York and Sydney. BP needs to be on the ball 24 hours a day—for its currency trading turnover is now bigger than the Bank of England's.

State-owned Renault does not have to worry as much as other French companies about the Socialist Government's newly-tightened foreign exchange controls. Its international treasury operations are conducted from a high-flying finance subsidiary in Switzerland which is practically a bank. Along with foreign exchange and money market transactions, it also deals in Eurobonds.

*It is not only the big multi*national companies which have caught on to the over-riding importance of mastering the complex world of currencies. Mr David Brown, managing director of DJB Engineering, a *£30m a year turnover manufac*turer of construction equipment for export in Peterlee, near Sunderland, sums it up: "Until two years ago exchange rates were totally incidental. Now they're the most important thing in life."

Smaller companies like Mr Brown's may be able to do little more than bump along uncomfortably on the turbulence of the foreign exchange markets.

They have at least been able to keep on an even keel by increasing the sophistication of their money management operations. Reuters, the international news and data agency, now has no fewer than 450 UK industrial companies linked to its electronic Monitor screens providing up-to-the-minute rates on fast-moving currency and credit markets.

Even Oxfam, Britain's biggest charity group, made money last year by keeping funds in high-yielding dollar deposits—a practice *increasingly favoured* by company treasurers following the lifting of exchange controls in October 1979.

It is the large international corporations, however, which actually rule the waves. Perhaps *20 to 30 companies world-wide,* led by the giant car, oil and chemical concerns, are powerful enough to move the foreign exchange markets through their individual dealings.

If they are combined as often happens, given the "band-wagon" nature of the foreign exchanges, shifts of corporate funds can exert a frightening force. Now that the oil surpluses have dwindled bankers say that company treasurers have taken over from oil sheikhs as the new potentates of the currency markets.

The big corporate treasurers are now free of exchange controls not only in the UK but in most other big Western countries apart from France. They are unsupervised by central banks, and preside over massive quantities of funds generated by their international trading and investment activities.

"Companies are free to do what *they like. They are more* free than the banks. We have limits on the amounts of our open positions—they don't," says one of London's most experienced foreign exchange dealers, Mr Ted Bradshaw, a *former chief* dealer at the Bank of England and now with the Hungarian International Bank.

"We're frequently quite concerned by the indications we receive of the size of companies' open positions both in foreign exchange and in borrowings," says Mr Peter Wood, deputy treasurer of Barclays Bank International. "Of course, we can't know whether they can be set against fixed asset positions overseas or genuine trading transactions. We wonder whether the room for potential loss is always fully appreciated."

Certainly, companies are making increasing efforts to ensure that such operations are prudent. Boards of directors have been sufficiently unnerved by disastrous examples of unmatched currency operations—such as the Laker Airways fiasco—to insist on a close rein on foreign exchange activities.

"It's possible for companies *to lose or gain more on the* foreign exchanges than they can make in a whole year of trading," says Mr John Moolenaar, formerly a senior official in the exchange control department of the Bank of England, who now works on the cash management side at Imperial Chemical Industries. "Freddie Laker showed that—by not covering his currency debts properly."

Despite the warnings, some companies indulge in what can only be called speculation. Many treasury departments are now staffed by a new breed of younger men, often with training in banks, brought in to put dealing on professional lines.

Risks may be incurred simply through negligence. But there *are many examples of big com*panies setting out to turn their currency departments into profit-centres.

The increased dealing expertise shows through not just on the foreign exchanges. Mr David McWilliam, assistant general manager in the group treasury department at Midland Bank International, says companies often act "ahead of the market" by altering the maturities of their borrowings in reaction to anticipated movements in interest rates.

Foreign exchange adventures often only come to the attention of shareholders if something goes wrong. But they can add to the worries of central banks trying to control currency fluctuations—and can alarm commercial banks which do not like to see their clients becoming too sophisticated.

Volkswagen's currency turnover is so important that commercial banks have been known themselves to ring the VW dealing room to keep in touch with its trading position. "VW can take any bank to the cleaners," says another London banker with grudging admiration.

It is an open secret on the foreign exchanges that VW has been watched carefully for some time by the West German Bundesbank, although its more extravagant dealing activity seems lately to have slackened.

The phenomenon is not confined to Europe. The entrepreneurial currency activities of the big Japanese trading houses have earned them the title of "the black-eyed speculators" in Tokyo. A Japanese central banker comments wearily: "They will cause us trouble in the years ahead if we want to stabilise currencies. We can control the banks—but what about the non-banks?"

With capital investment often unattractive because of the recession, some companies have made a deliberate policy of deploying unused funds to play the foreign exchange markets.

> 'Until two years ago exchange rates were quite incidental. Now they're the most important thing in life.'

The primary, wholly legitimate reason why companies deal in foreign exchange is to provide protection against adverse currency fluctuations.

But with treasurers reacting ever more quickly to news *flashed* electronically into their dealing rooms, the compounded effect of such transactions can, ironically enough, actually *increase* volatility.

Leads and lags—the process whereby companies speed up or delay payments of exports and imports in line with their perception of how foreign exchange rates will change—can build up enormous pressure on currencies within a very short space of time.

The result is all the more pronounced when, in search of currency profits, a company increases its dealing amounts beyond purely trade-oriented operations.

According to the foreign exchange manager of one big U.S. bank in London, a big motor company may sometimes need to buy, say, DM 250m for normal business purposes and then add to it to profit from the resulting rate movement. "The company says that if it's going to move the market anyway in a big way, why not buy DM 500m and have some fun?"

Often the border-line between "speculation" and skilful dealing aimed at cutting costs can be paper thin.

"We take the view that it is not part of our remit to speculate," says Mr Daniel Hodson, finance director of Unigate. This company "in principle" covers its foreign exchange position entirely to eliminate risks. But it also follows the tactical approach of choosing the right moment to deal in order to save money, he says.

Mr Quentin "Q" Morris is director with responsibility for finance at BP International, whose department co-ordinates BP's foreign exchange trading—*£4.32bn in London alone,* carried out wit h55 different banks, in the first three months of the year.

BP's foreign exchange business is centred on a three-way juggling act between European currencies like D-Marks received from petrol pump sales, dollars needed for oil payments and sterling used to pay UK taxes.

"Our currency dealing is at least as important as our oil trading," says Mr Morris. "We deal in exactly the same way as a bank. We like to use our position intelligently without going overboard."

"It's no longer un-British to make money on the currency markets," observes Mr Chris Lyddon, *treasurer of BL.*

Ironically enough, the company's last significant profit—back in 1976—was due to currency profits resulting from sterling's fall that year. Since then, the foreign exchange policy has been changed. "We don't run large uncovered foreign exchange positions," he says. "There's enough risk anyway in running BL."

Mr Archie Donaldson, deputy treasurer of ICI — which together with BP is the biggest UK corporate operator on the London foreign exchange market—believes that the change is overdue.

"Overall during the last few years my impression is that the banks have made money out of industrial companies. They used to make it out of the central banks; but now the central banks have become more clever.

"Large corporations are now better able to defend themselves. But it's much more likely that most companies don't take enough advantage of the possibilities that are there."

But BL still actively uses its little-known Swiss currency dealing subsidiary to give "extra flexibility." BL's company, British Leyland International Services, is based like Renault Finance in Lausanne. Part of the reason for maintain*ing the company, set up* at the end of the 1960s, is the sneaking feeling that exchange controls might come back again. Also with an eye on exchange controls — French this time — Peugeot has set up a dealing company in Geneva to handle its international treasury operations.

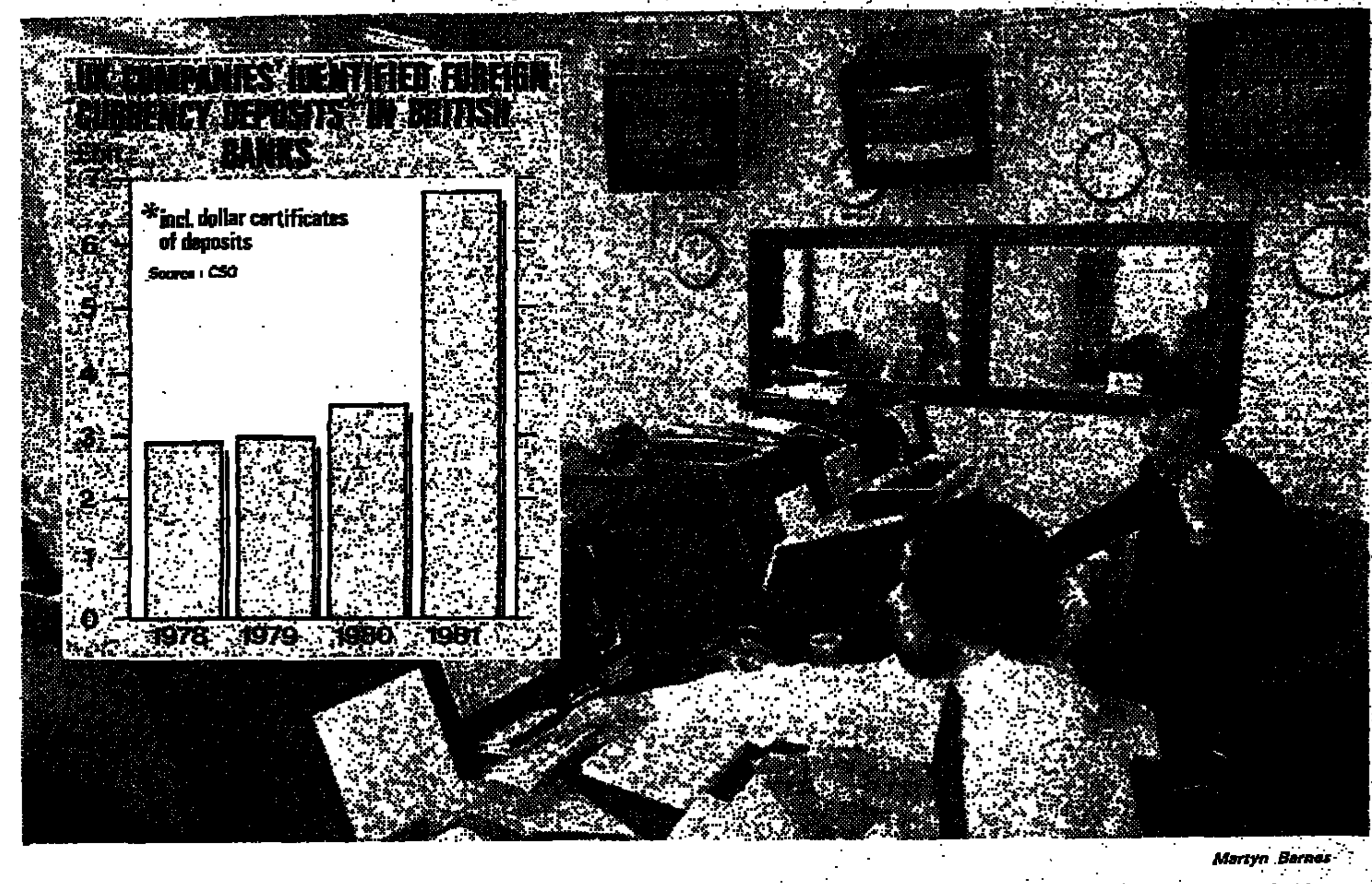
Ford is also renowned for its financial sophistication. The Ford UK treasury team — in which Mr Michael Callaghan, the son of Britain's former Prime Minister, has a senior position — closely co-ordinates its world money-shuffling business with Ford Germany and the head office in Dearborn.

Ford is however thought to act in a less aggressive manner than some other car companies. "I don't regard it as speculation — it's good foreign exchange management," says one London banker who is close to the company.

Corporate treasurers' activities—which some bankers regard as increasingly brazen —*can sometimes* cause friction with the banks. "The difficulty that the banks are facing is that their customers are becoming more sophisticated than the people who are *selling them* the services," observes Unigate's Daniel Hodson—whose previous experience was with Chase Manhattan and merchant bankers Edward Bates.

The result of the greater expertise is that banks find it harder to make profits from corporate dealing.

According to Mr Paul Hancock, who manages BL's day-to-day treasury operations, BL can use its size to obtain the finest *foreign exchange rates* from the banks. "Unless they give us the best rate, they won't get the business. We say the market rate isn't good enough—we can get that *any*where—and we want something *better.*"



Martyn Barnes

Men & Matters

Money fun

Because of the intrinsically sober nature of their business bankers are sensitive to suggestions that they can let their hair down as exuberantly as the rest of us. At the annual meeting in London at the weekend of the International Forex Association—the worldwide club of currency dealers—some eyebrows were raised at the idea that the meeting might even be the occasion for a massive jamboree. Well, I must in honesty report they worked hard but they had their fun as well.

The 2,000 dealer delegates did their best to look serious during coffee break at the star-spangled Barbican Centre. Indeed, many of them refused to take their eyes off the racks of video screens specially set up for the gathering and lugubriously blinking out the latest details on U.S. interest rates.

Karl Otto Poehl, the refreshingly irreverant president of the Bundesbank, delivered the key speech and struck the right note with his audience by starting off with a couple of jokes about economists and sex. That juxtaposition of concepts pleased the audience enormously.

The dealers might have reverted to poker-faced depression, however, as the rest of the speech was largly taken up with a gloomy recital of world economic problems. To bring them back to a state ready to face the world again they tripped off yesterday for a day in the country at Hever Castle, Kent, with a programme including military bands, all-day bars, sheep dog demonstrations, Morris dancing, and jousting.

Foreign visitors gained a new understanding of the working of British banking minds by study of these typical weekend pastimes.

Back at the foreign exchange dealing desks this morning they can always say they were working over the weekend.

Economy class

But the hundreds of bankers who will arrive in Acapulco, that most luscious Mexican Pacific resort, next weekend for a binge with their host country bankers wil have to buy their *own drinks.*

Mexico's banks, whose profits have long made their foreign competitors turn green with envy, are not giving any cocktail parties at this year's convention. In the past Banamex, the second biggest private Mexican bank, used to spare no expense entertaining 2,000 world financiers at the pyramid-shaped Princess Hotel.

But Mexico has fallen on hard times. Its economy — the boy wonder of the developing world since big oil finds were developed four years ago — has now virtually ground to a halt.

President Jose Lopez Portillo, who will inaugurate the convention, wants to impress upon the world's financial community that Mexico is tightening its belt. And foreign bankers who will be owed $83bn by Mexico by the end of the year—making her the world's most indebted nation—will doubtless be heartened to see that their money is not going on champagne and caviar.

Free drinks or no—a single British bank is sending nine people, including some wives, to the convention.

Mersey tide

After frustrating months sorting out land titles going back well into the 19th century, Liverpool's historic Albert Dock will be handed over today to the Merseyside Development Corporation by the Docks and Harbour company. Michael Heseltine, environment secretary, who has spent more time in Liverpool since the riots last year than any previous cabinet minister, will be there to give his blessing.

Basil Bean, the docks chief executive, is *hoping* that no one will turn up at the last moment with something like 13th century foreshore rights. This is about the only kind of hitch that could now stop this architecturally outstanding complex of warehouses and sailing ship docks from being turned into the centrepiece of a scheme to bring the Mersey waterfront back from the dead.

Lock gates at Albert will be repaird and millions of tonnes of silt removed. Some 80 small boats which have been squatting rent-free with typical "scause" check will be evicted and a permanently navigable water system restored.

The Merseyside Maritime Museum will assemble a *collection of ships and boats* afloat and it is hoped to make Liverpool a port of call for the 1984 tall ships race.

Sadly, however, this Venetian splendour will be largely invisible to the passing population. The county council's new six-lane inner ring road and a new wall effectively cut the old dock off from the city.

Closed books

The U.S recession has claimed one of its most distinguished victims. Brentano's — the country's longest-established bookstore chain—has filed for protection under the bankruptcy laws.

In business *since 1853* and with its flagship store a familiar landmark on New York's Fifth Avenue, Brentano's was bought last summer from the Macmillan publishing group through a "leveraged buy-out." That *means the* buyers, who reportedly included London investors, financed the deal mainly with debt. The ploy has turned out to be crippingly expensive with interest rates at their current high levels. Meanwhile sales have fallen sharply from last year's $30m and losses have been mounting.

Paul Ohran, Brentano's president, *explains* that the plan had been to close up to 18 of the chain's 33 stores reducing overheads and concentrating resources in the Eastern states. But all the stores are held on leases and most landlords were unwilling to go along with Brentano's plans.

Under the protection of the bankruptcy laws Ohran claims that the company will have much more freedom to do what it likes with the stores.

Meanwhile, big investors like the Prudential of America—which have been increasingly dubious in recent months about the fad for leveraged buy-outs —will no doubt take note.

Brentano's is one of the first well-known buy-outs to go wrong; it may not be the last.

Wedlocked

Though it sometimes seems you can sue anybody for anything in the United States, they do draw the line in Ohio. There, the slightly mystified Law Society Gazette reports, a court has just refused to let a man sue his wife for damages after being injured in an accident while a passenger in the car she was driving.

In accusing his wife of negligence, the man presumably had her insurance company in mind as the ultimate payer. The court said that to allow such actions would destroy marital harmony.

The "doctrine of interspousal immunity" the court explained, bars legal actions between husband and wife that might damage the family.

The court did not allow itself to consider what marital bliss might have resulted from a fat cheque from the insurers.

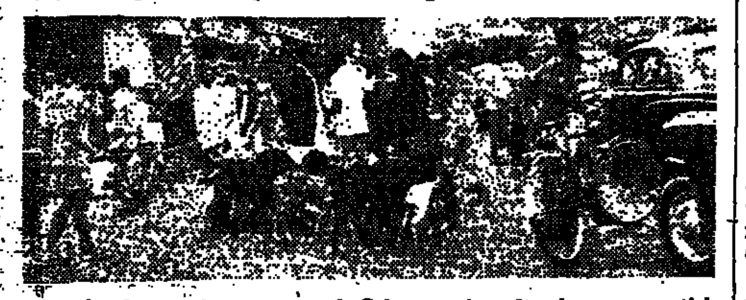
Observer

FINANCIAL TIMES SURVEY

Monday, May 24, 1982

CONTENTS

India has made significant advances in foodgrain production in recent years. Above: farmers sign for bank loans to begin new projects.



Crowds throng the streets of Calcutta—the city is an essential destination for those seeking business opportunities.

© Editorial production of this survey was by Mike Wiltshire; design by Philip Hunt.

INDIA

India today is in a state of transition. Attempts are being made to engineer basic changes to release the productive forces of the economy and thus break India free from the poverty trap

Big changes under way

BY ALAIN CASS, ASIA EDITOR

"WHAT WE need is another emergency. Then the trains ran on time, people queued, civil servants arrived at work promptly and if there was corruption you never heard about it."

It comes as something of a shock to hear this kind of view expressed, not by the odd, isolated extremist in India, or even by the big business *nabobs* who may feel that democracy is a luxury that a developing country cannot afford, but by ordinary people.

What makes it even more shocking is that the very people who say so—an hotel receptionist in Kerala, a driver in Bombay, an office manager in Calcutta, to name but three—are the first to admit that when the real emergency was in force from 1975-77, they were among its bitterest opponents.

Of course, they do not mean it—or, at any rate, very few of them do, for the Indian is far too attached to democracy, and the free play which it gives his exuberance, to do without it.

It is, nevertheless, an interesting and illuminating slip of the tongue because it accurately reflects both the frustrations of getting things done today in the world's most populous democracy and the enormity of the task facing those such as Mrs Indira Gandhi, the Prime Minister, who set about to improve matters through reform and change.

Balancing act

India today is in a state of transition. Beneath the surface of what outsiders are fond of calling "eternal India"—the India of caste and class, of extreme poverty and vulgar wealth, of sloth and soaring achievement—attempts are being made to engineer basic changes.

In essence, these changes, which form the core of Mrs Gandhi's strategy since she came back to power in 1980, are concerned with releasing the productive forces of the economy in an effort to break India free of the poverty trap while, at the same time, finding a political formula for governing the country which balances the need for strong government from the centre with the demands for devolved power from the country's 22 states.

It is a delicate and frustrating balancing act in which too little authority from the centre allows India's innumerable forces to pull in different directions, while too much provokes united opposition with much the same paralysing effect.

The backdrop against which Mrs Gandhi is attempting to work this miracle is not particularly encouraging. The emergency and the subsequent disaster of the Janata coalition government from 1977-80 have further undermined the national consensus which underpinned India's progress in the immediate years after independence, when Jawaharlal Nehru, Mrs Gandhi's father, was able to make great strides.

Sectarian violence is increasing. For the first time since independence, Sikhs and Hindus in the Punjab are in open conflict. An isolated incident, perhaps, but an unwelcome "first," nevertheless.

Political parties have become increasingly fragmented, including Mrs Gandhi's ruling Congress (I). This has led to a sharp drop in the prestige of national parties and a corresponding increase in regional forces, based either on caste or linguistic loyalties or, as in the case of the Marxists in West Bengal, on a subtle combination of chauvinism and the exploitation of mass deprivation.

At the outer rim of India's huge land mass, this fragmentation of the political process has encouraged separatist forces, such as the Mizos in the north-east, who pose a constant headache for the Government in Delhi. Thousands of troops are needed to contain the threat.

Beyond this, there is a feeling in the country which is, of course, almost impossible to quantify accurately, that "the poor are getting poorer and the rich are getting richer" despite consistently high growth rates and tangible, even spectacular progress, in certain areas of industry.

What seems to be true is that the absolute number of people below the poverty line—around 40 per cent of the population—is not becoming any smaller. Neither is it apparently shrinking as a proportion of the total population.

This depressing picture at home, which Mrs Gandhi inherited, is matched by an equally sombre international environment.

The Soviet invasion of Afghanistan in 1979 has prompted a new and important — the Indians say dangerous — commitment by the United States to Pakistan which involves substantial economic and military aid, including the F-16 deep penetration fighter aircraft.

Suspicion

The open sore of relations with Pakistan remains the fundamental preoccupation of India's foreign policy. Pakistani and U.S. assurances that their new relationship is a strictly limited affair which does not involve the siting of American bases in Pakistan either now or in the future, are treated with grave suspicion in New Delhi. India sees in this latest development the seeds of yet another war on the subcontinent.

Whatever the real basis for the mutual suspicions between Delhi and Islamabad, they have fuelled Indian defence spending on a massive scale in recent years, depriving the economy of resources, human and financial, which it can ill-afford to do without.

Added to this is India's constant pre-occupation with its dominant position in the area. This, it argues, is an important guarantee of stability, and requires an appropriate level of preparedness.

Such constraints do not make for smooth economic progress and political reform, though they do make both even more urgent.

Mrs Gandhi has made an important start on the economic front, by introducing a series of sweeping changes which loosen the straitjacket of controls. These are aimed at liberalising imports, encouraging domestic companies to expand production and assisting the introduction of foreign technology.

The $5.7bn loan from the International Monetary Fund, agreed in the teeth of fierce domestic opposition at the end of last year, was of enormous symbolic importance in this context as well as being of great practical value. So was the decision, in 1980, to allow foreign oil companies to prospect for offshore oil.

Freed of its immediate foreign exchange concerns as it faces a growing trade gap and dwindling reserves, the Government can concentrate on implementing its reforms.

Officials tend to play these down and warn that if the economic climate worsens — if, for example, there is a bad harvest or a huge jump in the price of oil — controls will be swiftly reimposed.

It is, nevertheless, clear that an irreversible process is at work which marks a sharp change from the isolationist policies of the 1960s and 1970s.

This has been matched by a clear attempt to improve India's indifferent relations with Western Europe. Mrs Gandhi is also going to the U.S. in July having just returned from Saudi Arabia, as part of the same effort to break out of the isolation of the past 20 years and ultimately become less dependent on the Soviet Union by attracting Western money and technology on a much larger scale.

It is worth pointing out, however, that while the present reforms are likely to be extended both within existing sectors of the economy, as well as to new ones there are political limits beyond which Mrs Gandhi cannot go without sacrificing the cherished principle of self-reliance. In the words of one foreign businessman: "Foreign companies with a vision of 700m consumers should forget it."

Mrs Gandhi has gathered round herself some of India's brightest civil servants in the hope that they can cut away enough of the suffocating tangle of red tape and sheer inertia, to give these reforms a chance.

The changes she is said to want to make on the political front amount, in essence, to giving India a structure more akin to France's presidential system.

The ostensible aim would be to give the centre more powers to push through reforms.

Such moves leave her open to the accusation of empire-building. Her choice of her other son, Rajiv, to succeed Sanjay as her heir apparent, ignoring the democratic machinery within her own party has hardened these suspicions.

That Mrs Gandhi has signalled clearly whom she wants to succeed her is beyond dispute. Whether she realistically believes she can, or should, establish a dynasty, is a matter of idle speculation.

However, Mrs Gandhi today is not the Mrs Gandhi of 1975. Chastened by her period out of office, a little wiser and no doubt sadder and less self-assured, following the death of Sanjay on whom she relied a great deal, she gives the impression, at any rate, of being more willing to rely on conciliation rather than force.

Paradoxically, she is also in a much stronger position than she has ever been. The sad remains of what what was once then Janata coalition, which ousted her from office in 1977, trying desperately and unsuccessfully to recapture its former glory, only reinforces Mrs Gandhi's image as the only figure of national stature in India today.

Whether that remains the case will depend largely on how much she can achieve in the next few years.

Trevor Humphries

Mrs Indira Gandhi, India's Prime Minister, is seeking a political formula for governing the country which will balance the need for strong government from the centre with the demands for devolved power from the country's 22 states

WORLD'S LARGEST DEMOCRACY

INDIA, with 686.2m people, represents the world's largest democracy. While 24 per cent live in urban areas, the vast majority live in the nation's 575,900 villages.

India's statistics are shown in graphic form on page III, but other basic facts include the following:

Area 3,136,500 sq km
Life expectation 54 years
Literacy rate 47 per cent (male); 25 per cent (female).
GDP 1980 Rs 1,256.8bn; US$159.8bn
Per capita Rs 1831.5; US$232.9
Trade: Exports, 1981 Rs 62,840m
Imports, 1981 Rs 119,800m
Foreign exchange reserves: December 1981, US$3,764m
Currency: £=Rs 16.85; $=9.2166
Exchange rates:
1980 average, $=Rs 7.863
1981 average, $=Rs 8.659

Population of principal cities:	
Ahmedabad	2.5m
Bangalore	2.9m
Bombay	8.2m
Calcutta	9.2m
Delhi	5.7m
Hyderbad	2.5m
Kanpur	1.7m
Lucknow	1.0m
Madras	4.3m
Nagpur	1.3m
Pune	1.7m

Major industry groups, employment percentage share:	
Food	16.8
Beverages, tobacco	5.1
Textiles	23.1
Wood and paper	4.8
Leather, rubber and plastics	3.8
Chemicals	5.8
Mineral products	4.3
Basic metals	7.1
Metal products	2.7
Electrical machinery	3.9
Other machinery	5.4
Transport equipment	5.0
Electricity	8.8

Hawks gain ground as defence budget soars to record levels

K. K. SHARMA in Delhi examines the swift changes being made in India's defences, particularly the measures to give India an awesome air-strike capability.

The first of India's Jaguars (designed by British Aerospace), rolled off the assembly line at Bangalore's Hindustan Aeronautics in March and is due for its test flight in early June.

India is considering local production of the French Mirage 2000, in addition to the Soviet Mig 27 ground attack aircraft.

The Government has also given the go-ahead for the production of an entirely indigenous fighter, to be fitted with an advanced gas turbine engine, and coded the GTX.

In addition, the Army and Navy will soon be re-equipped with brand new weaponry, much of it made by India's 33 ordnance factories.

THE HAWKS are getting the better of the doves in India's defence planning. They received an unexpected impetus for their case on higher expenditure and purchase of modern sophisticated arms from Pakistan's U.S.-assisted rearmament programme.

The result is a massive defence budget of Rs 53.38bn ($5.68bn) for 1982-83, or nearly 4 per cent of the GNP —the highest ever, so far—or 17 per cent of the total Government's expenditure.

Defence planning is always under constant review and the immediate result of the ground gained by the hawks is the pronounced tilt in favour of new foreign weaponry which is being acquired in vast quantities.

This is not considered by the Defence Ministry as a setback to the goal of self-reliance in defence equipment because the Government's policy is that any large purchase of arms abroad must be accompanied by the transfer of technology to enable India to manufacture them indigenously.

The next few years will thus see a swift change in India's defence capability. This change is particularly in air defence. The Defence Ministry is keeping its options open on the manufacture of the French Mirage 2000 (40 of which are to be purchased outright from Marcel Dassault), the MiG-23 and the MiG-27 from the Russians, in addition to the indigenous development of a new "light combat aircraft," possibly in collaboration with British Aerospace.

Thus, with the Jaguars bought from (and being assembled by) Hindusthan Aeronautics, under licence from British Aerospace, India's air strike capability is truly awesome.

In the past year, the Defence Ministry says, the Government has carefully assessed the defence requirements "in the context of the recent developments in the security environment and has initiated a number of short-term and long-term measures to evolve appropriate defence strategy and to build up adequate preparedness."

The practical effect is that the one million-plus men in the Army, Air Force and Navy will soon be equipped with brand new weapons.

According to a senior Army officer, India is "pretty near invincible against its possible foes . . . but I wouldn't feel at all confident two years from now. The explanation is that the new weaponry gives a false sense of security simply because the process of teaching soldiers—mostly all from villages and semi-literate—takes time.

Nevertheless, the generals will have plenty of "toys" to play with.

Apart from the aircraft to be bought from France, Russia and Britain, the Navy is receiving submarines from West Germany (these will also be made at the Mazagon Docks in Bombay); a refurbished aircraft carrier, equipped with Harriers; plus destroyers and frigates.

The Army is receiving an almost entirely new weapons system—"The main accent in the defence plan continues to be on modernisation and replacement of equipment, on securing greater fire-power, mobility and more modern means of communication," says the defence ministry.

On defence production, the emphasis is on "self-reliance and import substitution."

If the Air Force is to receive all the modern aircraft it needs, the Army is as much in the forefront. A scheme is being implemented to increase its mechanical power, fighting potential and "kill-probability."

The most important of these developments is the improvement of the armoured corps which is to receive the latest Russian tanks (T-72) and will soon be equipped also with a new "main battle tank (MTB) developed indigenously and claimed to be comparable to be best in the world." Vikers, which helped to develop the Vijayanta tank (now made at a factory at Avadi in Tamilnadu), is trying to collaborate in this development.

The present anti-tank capability is strengthened by the introduction of a new anti-tank missile system with Soviet help and this will be manufactured later under licence. Several projects have been taken up for modernisation of artillery equipment.

Various kinds of foreign equiment are being evaluated — and again the Russians are in the lead—to meet the needs of the gunners until the year 2015. Air defence artillery has already been acquired from the Russians and trials are now in progress.

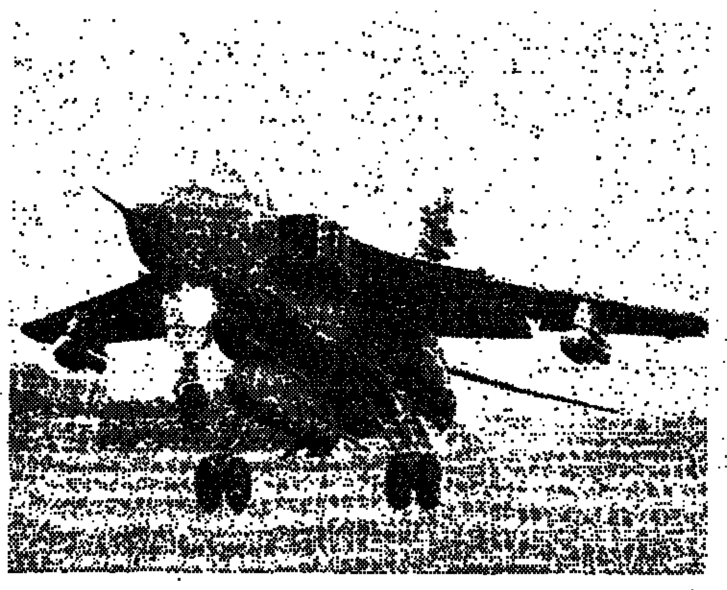
India has a large defence production apparatus, consisting of 33 ordnance factories dotted around the country and nine major undertakings for defence production in the public sector. They are helped by sub-contracting to various civilian units which are increasingly becoming part of the defence infrastructure.

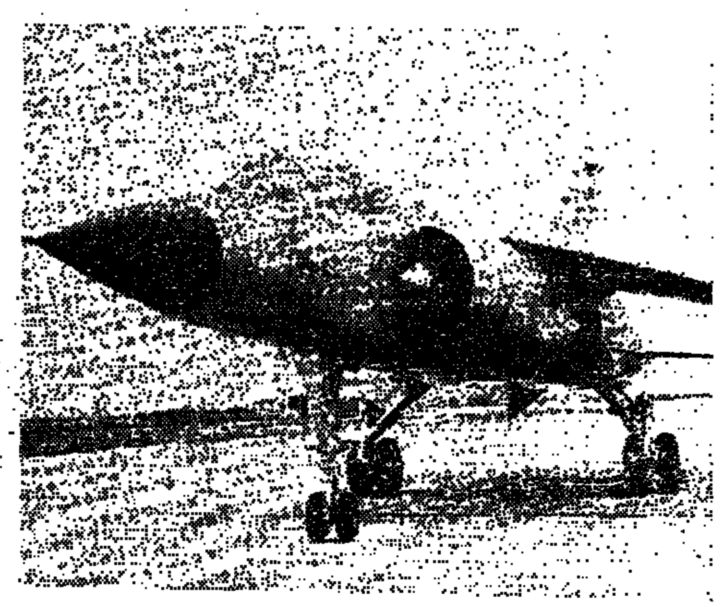
With a work force of 173,000, the ordnance factories make a range of items including anti-tank guns, anti-aircraft guns, field guns, self-propelled guns, mountain guns, mortars, rockets, projectiles, mines and a host of other items, the technology for which is being constantly modernised, either with foreign help or by the Defence Ministry's own research and development units.

In terms of value, the 33 factories expanded their production by nearly 13 per cent from Rs 6bn in 1979-80 to Rs 6.75bn in 1980-81.

In 1981-82, estimates are that a further increase of around 17 per cent will have been registered.

Total defence production in the country is worth an impressive Rs 15bn a year—and this does not include purchases from abroad.





The Jaguar fighter (left), now under production in India. The Mirage (right) is under consideration for local assembly

Nine public sector defence undertakings

	Share capital and loans	Turnover 1981-82	Profits
Hindusthan Aeronautics	Rs 16.58bn	Rs 2.46bn	Rs 42m
Bharat Electronics	Rs 390m	Rs 1.15bn	Rs 89m
Bharat Earth Movers	Rs 310m	Rs 2.1bn	Rs 98m
Mazagon Docks	Rs 300m	Rs 1.16bn	Rs 49m
Garden Reach Shipyard	Rs 630m	Rs 586m	Rs 79m
Goa Shipyard	Rs 338m	Rs 90m	Rs 4.8m
Praga Shipyard	Rs 125m	Rs 100m	Rs 12.6m
Bharat Dynamics	Rs 519m	Rs 29m	Rs 2.5m
Mishra Dhatu Nigam	Rs 1.5bn	†	†

† Figures not available.

INDIA—II — THE ECONOMY

The Government is allowing market forces to have their play, with what is considered a minimum of controls. Policy-makers are now keeping their fingers crossed after some very encouraging results in the past year

Bold policies begin to pay off

"IT'S A bold gamble, but she will have to watch it," warns an international economist after observing Mrs Indira Gandhi successfully steer the Indian economy through rough seas in the past two years.

With danger signals sounding from every side, the Prime Minister and her advisers have adopted a deliberate policy of allowing market forces to have their play with what is considered a minimum of controls.

This is both in respect of internal policy (where private industry and foreign firms are seeing the greatest opportunity to increase their investment since the economy was virtually closed in the mid-1960s) and the external side. India has relaxed import restrictions despite a soaring trade gap and taken resort to external financing from the International Monetary Fund and the world money markets.

The result in the past year has been remarkably encouraging and the Government's economic policy makers are keeping their fingers crossed.

In 1981-82, the economy registered a growth rate of around 4 per cent after 7.5 per cent in the previous year, giving a high annual average of more than 5.5 per cent in the first two years of Mrs Gandhi's second spell in power.

Record harvest

This has been made possible by a record foodgrain harvest of an estimated 134m tonnes in 1981-82, combined with an improvement in industrial production of around nine per cent. These factors combine to end a period of stagnation caused by infrastructural constraints and is especially promising as the growth has been accompanied by a zero inflation rate — a remarkable piece of economic management that augurs well for the future.

Yet, the economy could come a cropper at any time. Mrs Gandhi has been lucky in having had two successive good monsoon years and so agricultural production — still heavily dependent on the weather—has been good.

But three good monsoons in a row are rare and India's farmers and economists will be watching the skies anxiously for the next two months. A poor summer harvest could mean a crisis because it will mean more food imports to bolster the stocks that are already at a low 11m tonnes, a level below that considered safe.

India made its first food imports in more than five years last year, despite the good harvests, these were limited to just over 2m tonnes.

Anything more than this will subject the foreign exchange reserves to severe strain and force the Government to review its liberalisation policy.

Mrs Gandhi's gamble is against the backdrop of the sharp reversal of the terms of trade since the Opec price hike of 1979 which doubled the country's trade gap to Rs 57bn in 1980-81. This could reach a record Rs 60bn in 1981-82, despite a rise in exports by nearly 15 per cent.

The result has been a severe balance of payments crisis which is kept in check only with the help of earnings from "invisibles" — such as remittances from Indians abroad—and a massive aid and borrowing programme, both of which have now reached a plateaux at a time when the international aid climate has deteriorated and world trade is depressed.

The World Bank has painted a gloomy picture of the current account deficits and expects these to plague India throughout the 1980s. The deficits are expected to be more than two per cent of the Gross Domestic Product for the first half of the decade and are expected to be the highest in 1983-84 when they could reach $5.19bn, more than double that estimated in 1981-82.

Finance Ministry officials think this is an unduly pessimistic appraisal. They point out that India has already made substantial savings in oil imports because of a rapid growth in internal production from offshore fields, this is expected to continue because of new finds. Even though the investment costs will be high, the Government hopes to meet 70 per cent of its oil requirements from internal production of 1985.

The import substitution programme in areas such as oil, fertilisers, steel, cement and edible oil could be the key to improving the current account deficit picture. On it will hinge the continuation of the policy of liberal imports of capital goods, technology and raw materials needed to make Indian industry competitive so that exports can be boosted.

They will also help the acute problem of internal resources needed to push through the ambitious $110bn Sixth Five-Year Plan for the period 1980-85. The success of this is vital if the country is to tread the path of real growth and break away from the traditional low annual average rise in national income of 3.5 per cent, the trend rate in the past three decades.

This will require Herculean efforts both in agriculture and industry, more so the latter because the "green revolution" has virtually spent itself. This explains the Government's anxiety to push up industrial production which has improved because infrastructural bottlenecks like power supply shortages, transport tangles and labour strife have eased.

But the improvement is marginal. In 1981-82, electricity generation increased by about 11 per cent and the coal production by around 10 per cent while the total revenue earning traffic on the railways improved by 14 per cent. This is by no means satisfactory and industrial production continues to be impeded.

Two good monsoon years in succession have helped to produce record foodgrain harvests. Above: village women at Chainsa chat during an early morning visit to the well—one of several water-collections they make each day

Power supply, in particular, remains critical because of the low capacity utilisation of thermal and hydro plants which is less than 50 per cent on an average all over the country. More than anything else, it is power supply that holds the key to a better performance of the economy and progress on this is ominously slow.

All this will eventually mean that, unless remedial measures are hastened, the strain on the foreign exchange reserves will grow because non-essential imports will have to continue. The reserves are declining alarmingly. They plummeted to Rs 33.5bn at the end of March, 1982, by 30 per cent in a year even though drawals of over Rs 6bn were made from the IMF.

This represents a fall—if IMF withdrawals are not taken into account — of a massive Rs 20.97bn in a year, a record figure that must cause deep concern. The IMF is satisfied with the performance of the economy and recent consultations cleared the way for disbursement of the second year's instalment of the three-year $5.7bn loan approved last year.

Imbalances

This is just as well. It means that not only will the coming year—and possibly the next two years—be tided over, but also that the economy is being managed well and that the new policies are yielding results. But both the IMF and the Indian Government acknowledge that there is need for the country to generate its own foreign exchange resources if the medium-term problems are to be tackled.

Apart from the balance of payments problems and the slow improvement in infrastructure, the World Bank has noted that there are serious imbalances in agricultural growth both in regions and crops.

It has pointed to the low productivity in many sectors of industry and the slow progress of irrigation projects. Also mentioned is the slowdown of population control measures. All this adds up to a grim appraisal despite the improvement in the past couple of years.

The Government has made strenuous efforts to raise resources for investment, including such long overdue measures as a more rational pricing policy for state-owned industries. Still a steep rise in mobilisation of resources is called for and this should be as much as 25 per cent of the GDP by 1985 if the sixth plan is to be carried through. Even after this the savings-investment gap is expected to rise from 5.3 per cent of the GDP in the Sixth Plan to 7.3 per cent in the Seventh Plan, a longer-term problem that must be tackled immediately.

At the moment, some sectors of industry are complaining of a recession because of a credit squeeze. But economists think that fears of the emergence of a demand-induced recession in 1982-83 are exaggerated and in fact, the Government's policies are having a salutary effect on inflation.

The summing up must be that the indicators show a mixed picture and that the policy makers will need to be constantly vigilant to tide the country over its present situation. The Government has now decided to make a mid-term reappraisal of the Sixth Plan. This should enable it to make suitable adjustments in investment decisions so that key sectors of the economy function more efficiently and reduce the pressure on the balance of payments.

K. K. Sharma

Renewed emphasis towards liberalising the economy

Substantial restrictions remain despite many recent reforms

IT IS often said that the radical departure in Indian economic policy since Mrs Indira Gandhi came back to power in 1980 is not due to her, but to the continued momentum of the influence of her son, Sanjay, who died in an air crash a year ago.

Since these new policies are also accompanied by a shift in foreign policy which effectively underpin the change in economic direction, this seems unlikely, even though Sanjay Gandhi is acknowledged to have been more instinctively a free marketeer than his mother.

There is another reason why the Sanjay factor should not be taken too seriously. It is that the moves towards liberalising the economy first broke surface in 1978 when the Janata Government, swept into power after the emergency a year earlier, freed the import of some capital goods, raw materials and components.

The result was an 8 per cent rise in industrial output and an 18 per cent jump in exports between 1978 and 1980. The lesson was not lost on Mrs Gandhi who took up the relay when she was returned to office giving it much greater impetus and considerably widening the scope of the reforms.

The continuity of this policy and its source are important because they indicate that there is a national consensus for liberalisation outside the leftist parties—and that the process is likely to continue.

The only point at issue is the extent to which the loan from the IMF—the fund's biggest ever—was the cause of the accelerated liberalisation or merely part of Mrs Gandhi's wider strategy to release the moribund productive forces of India's economy.

Key factor

What is probably true is that India's deteriorating balance of payments problem as the terms of trade have moved sharply against her were a prime factor in the application to the IMF, that, in turn, has led to further liberalisation as part of the fund's conditions for the $5.2bn loan.

The changes have been wide-ranging.

● **External borrowing:** there has been a major change in policy. In fiscal 1981-82, the Government approved a record $1.35bn in loans from the world money markets by public and private sector companies. The previous year's figure was $75m.

Thirty-three companies received loans to import capital goods, finance projects and purchase ships and aircraft making India a major borrower of non-concessional loans for the first time. A low level of borrowing in the 70s has established India a sound credit rating.

The level of borrowing is expected to rise at an even faster rate over the next few years. The IMF expects total debt service repayments including multilateral loans — to rise from the current level of around 8 per cent to a peak of 16 per cent in the late 1980s before falling again.

● **Prices:** The relaxation of price controls on cement and steel. In the case of cement this has had a dramatic effect wiping out at a stroke the bulk of the black market in cement and encouraging major industrial houses—the Birla Group for one—to invest in cement manufacture.

Price controls, it is estimated, had diverted as much as $350m from the proceeds of black market cement alone into the parallel or "black economy." Much of this money is now expected to flow back into the legitimate economy.

● **Oil policy:** The decision to invite bids from foreign companies to prospect for oil in India's off-shore fields in 1980 was a watershed. The terms since negotiated appear to have deterred many would-be clients but this does not change the nature of the decision which is a clear departure from the previous policy of self-reliance.

● **Industrial policy:** Both foreign and Indian companies, the so-called "monopoly large industrial houses," covered by curbs on expansion under two key pieces of legislation have been giving more breathing space.

Regulations under the Foreign Exchange Regulation Act (Fera) and the Monopolies and Restrictive Practices Act (MRTP) have been eased. Some foreign companies and monopoly houses may now invest in five major new areas. They can also expand their established capacity by a third provided their products do not compete with smaller units.

● **Import restrictions:** These have been eased significantly liberalising the import of capital goods, raw materials and technology despite the alarming rise in the trade gap.

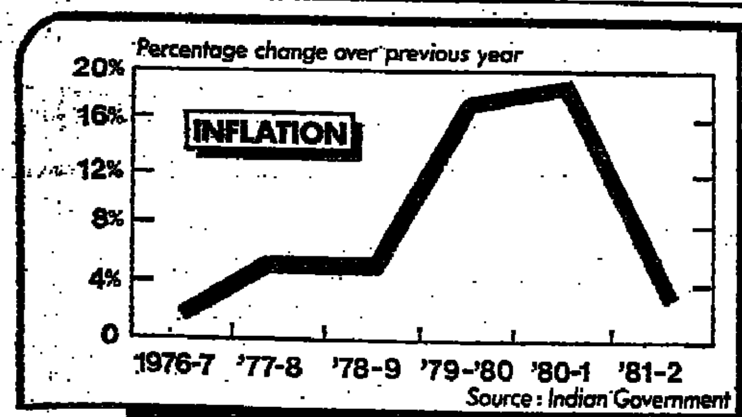
A new pragmatism has taken hold of Indian economic policy. Its first effects on the morale and the stated intentions of businessmen has been dramatic.

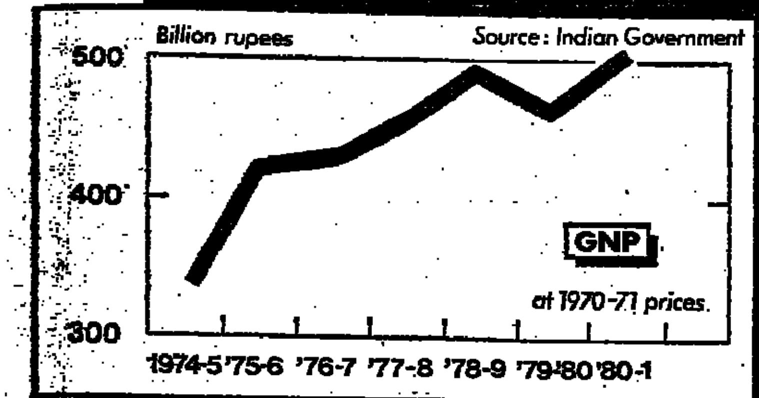
It remains to be seen whether that will be translated into results given the very substantial restrictions which still hold down expansion in huge sectors of the economy coupled with chronic inefficiency and a bureaucracy so cumbersome it is sometimes suffocating.

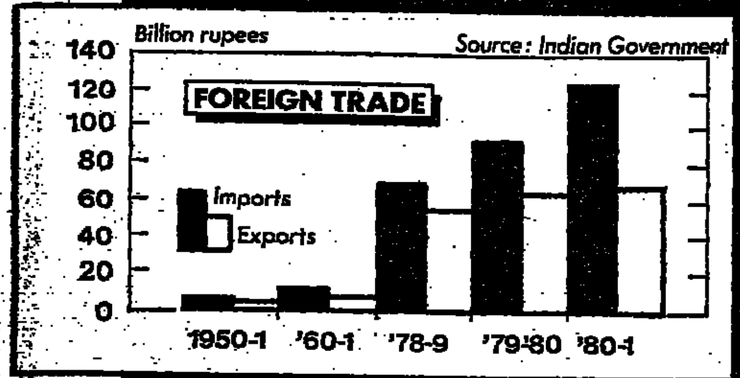
Alain Cass

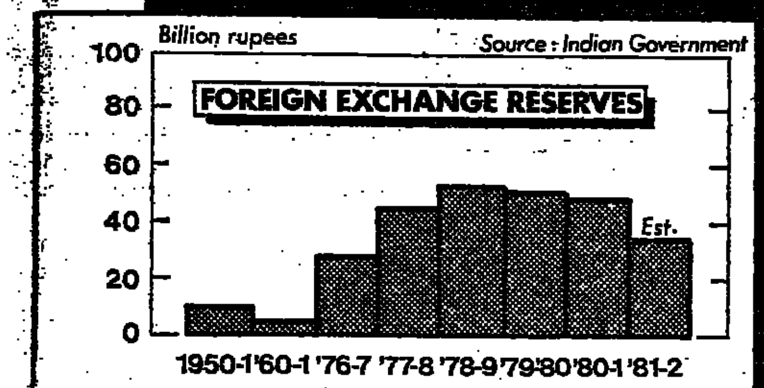
India: the vital statistics

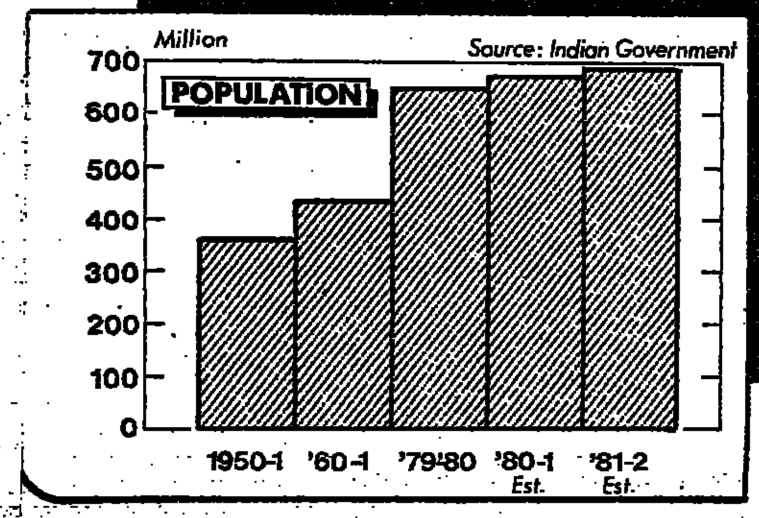
Graphics by Brana Radovic

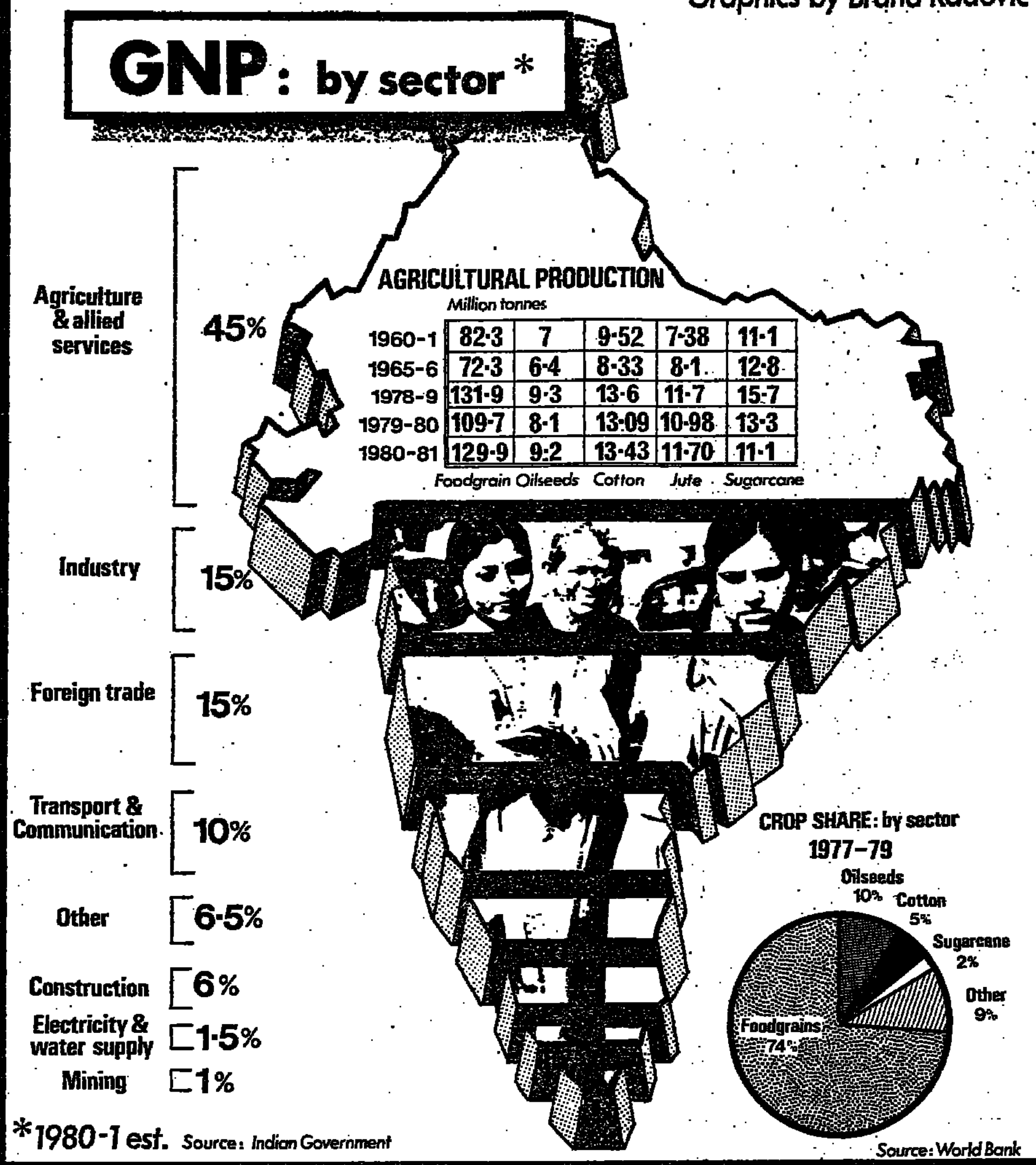












AGRICULTURAL PRODUCTION

Million tonnes

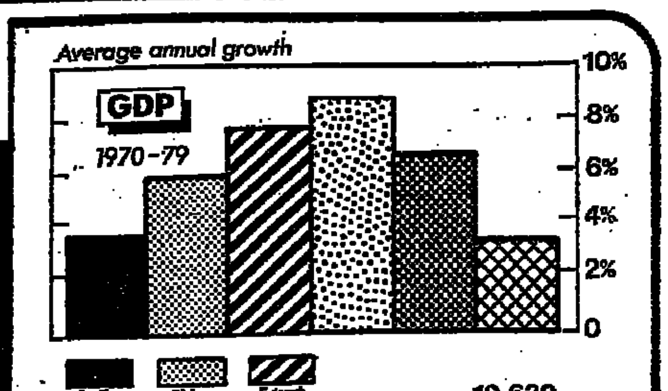
	Foodgrain	Oilseeds	Cotton	Jute	Sugarcane
1960-1	82·3	7	9·52	7·38	11·1
1965-6	72·3	6·4	8·33	8·1	12·8
1978-9	131·9	9·3	13·6	11·7	15·7
1979-80	109·7	8·1	13·09	10·98	13·3
1980-81	129·9	9·2	13·43	11·70	11·1

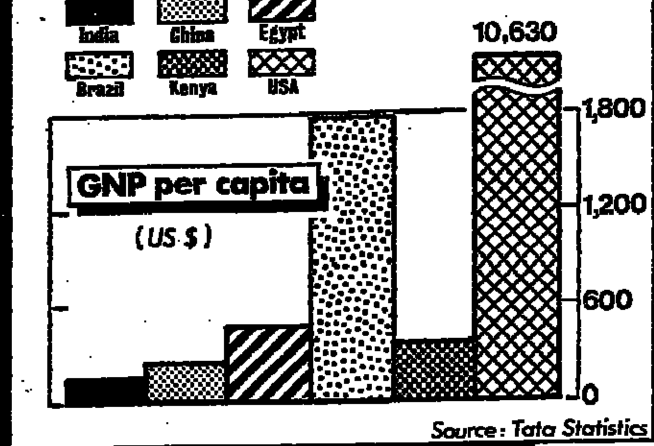
Access to a wide range of data

INFORMATION in India is abundant, accessible and generally accurate. The Government's Department of Statistics in the Planning Commission keeps data on the economy and provides a regular information service.

This is matched by individual ministries at both central and state level. In addition, a number of private institutes, major corporations, industrial associations and other private bodies complement this service. The Tata handbook of statistics, from which a number of tables for this Survey are drawn, is perhaps the most widely used source, but there are others.

This ease of access to reliable information tends to be matched with accessibility to officials, even at the higher levels. The major problem is knowing who to see in order to cut through the equal abundance of red tape. That question is not quite so straightforward.

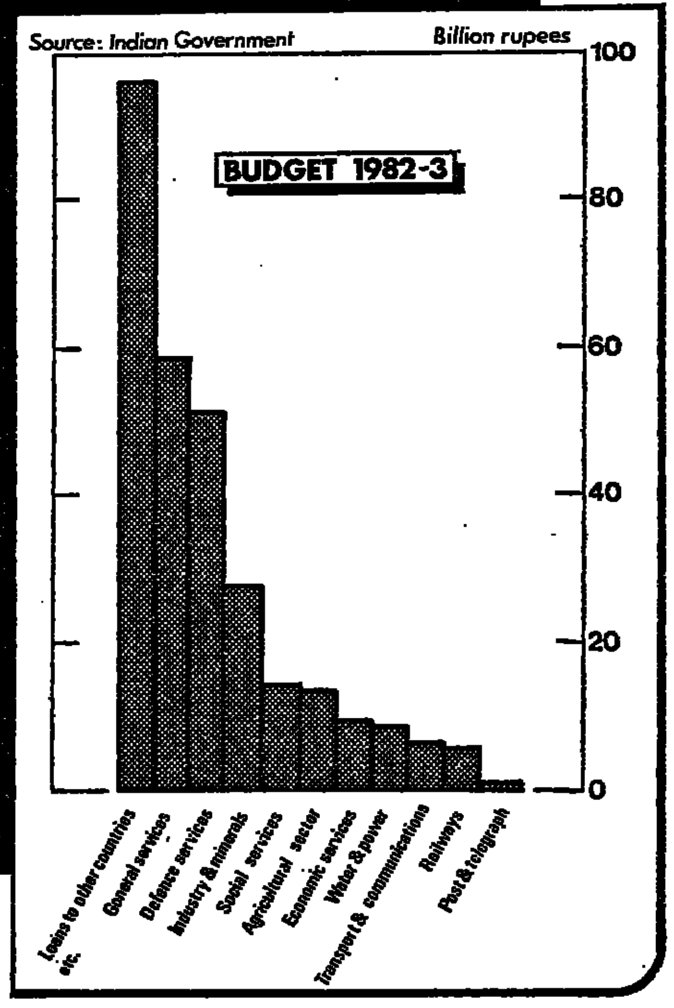


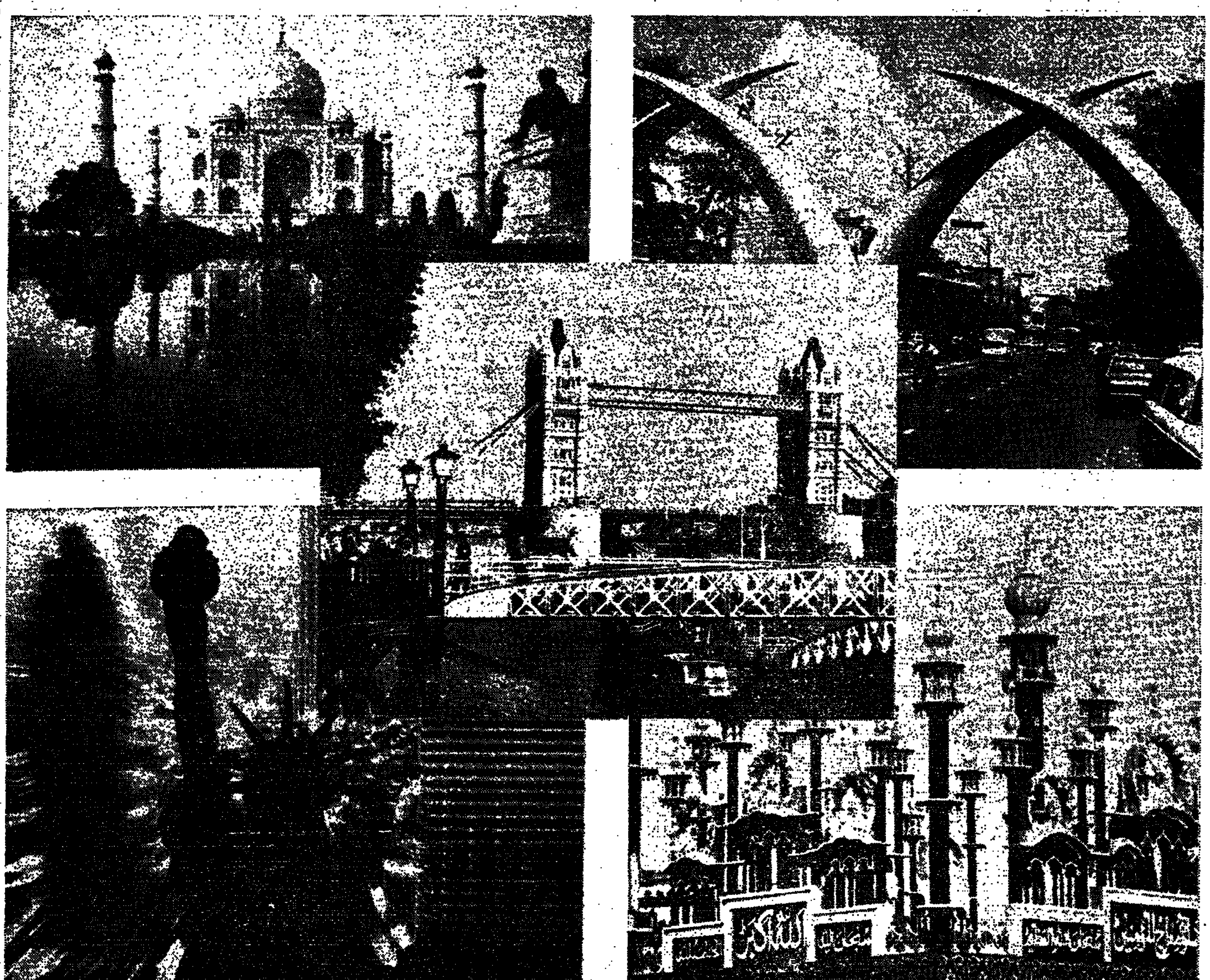


PER CAPITA CONSUMPTION

Source: Tata Statistics

	INDIA	CHINA	EGYPT	BRAZIL	KENYA	U.S.A.
NEWSPRINT (Kg)	0.2	1.3	1.6	1.5	0.3	41.6
COAL EQUIVALENT (Kg)	242	835	565	1062	180	12350
CALORIES	2021	2453	2760	2562	2032	3576





INDIA—IV

ENERGY

Much of the energy industry's inefficiency lies in the electricity sector and losses in transmission or distribution average about 20 per cent, says Alain Cass

Keeping the power lines open

THE FANS in the fading post-imperial splendour of the Chief Minister's office in Trivandrum, Kerala, in South India are as big as Spitfire propellors. As we talk, within the space of half an hour, there are four power failures which bring their reassuring whir to a silent halt.

There is nothing unusual in this. In Bombay, the looms in the textile mills, flagships of India's export drive, often suffer the same fate, as does much of the rest of the country's industrial sector.

Even India's nuclear power stations, symbols of the country's remarkable ability to reach into the future while struggling with the past, run well below capacity because of power failures.

India is not unique in having an energy crisis. Unlike those in the West, however, it is not one of high consumption, but of low efficiency and insufficient production, by comparison to other countries' total per capita consumption in India is low, around 200 kgs of coal equivalent compared to 800 kgs in China, 5,900 kgs in Australia, a little less in the UK and twice that in the U.S.

Cutting back on that total consumption is neither practical nor desirable. It would merely stifle economic growth. The problem is the chronically inefficient use of that energy, on the one hand, and the relatively slow growth in the output of new resources on the other.

Loss varies

In 1978-79, according to a Government report, the percentage energy losses across the country in transmission or distribution varied from a maximum of 26 per cent to a minimum of 12 per cent. The total loss was in the order of 20 per cent which, as one energy expert points out, virtually equalled the power generated in the entire country 18 years earlier.

Much of this inefficiency lies in the electricity sector—the bulk of which is either thermal or hydro power. It is estimated that many of the country's plants operate at an average of less than 50 per cent efficiency.

In some states between 40 and 60 per cent of that electricity goes to drive irrigation pumps. They, in turn, operate at an efficiency of between a low of 25 and a high of 60 per cent.

Perhaps the most dramatic effect of the inefficiency of the thermal power sector is in West Bengal where efficiency can be as low as 35 per cent. This chronic shortage has been a major factor in the gradual and apparently irreversible decline of what was once India's premier industrial state.

Particularly badly hit are the major steel plants and other heavy industries which are energy intensive. As a result, in Calcutta alone private industry has installed over 400 MW of standby generators to bridge the gap.

The energy shortage is also the single most important factor for the virtual absence of major new investment in the state in the past decade.

One small victory in this picture of unremitting failure is the Oamodar Valley Corporation where a combination of careful management and a tough approach towards the labour problem has boosted output to over 65 per cent, which is higher than the national average.

Despite the relatively small role played by oil in total consumption and the even smaller role by kerosene—around five per cent—the appalling condition of the country's roads, outdated technology of vehicles and poor maintenance compound the waste.

The economic problems that successive governments have faced in trying to tackle these shortcomings are compounded by serious political constraints.

In the case of agriculture, it is simply that the bulk of India's electorate are farmers. The option of imposing a more realistic price structure for them—as opposed to industrial users—in order to encourage efficiency can only be exercised with extreme caution.

In its policy statement to the IMF at the time of the $5.8bn loan negotiated last year, India recognised that energy pricing policies are an important component of its attempts both to conserve energy and improve efficiency.

It admitted, however, that while coal prices had been raised and electricity prices had also been adjusted upwards in some states—though not to the household consumer at any great degree—most state electricity boards operate at a loss.

The Government also recognised, at the time, that energy shortages had been responsible for curtailing economic growth in the past and, by implication, could again be so in the future. Some energy experts, while recognising that the present Government has made a start, believe that unless radical, new measures are taken the consequences for the economy, as one of them put it, "could be catastrophic."

A start has been made in the oil sector even though it represents a minor component of total energy consumption. This is a crucial difference with the industrialised economies of the West, as well as many developing countries, where oil and its acquisition is the lifeblood of economic survival.

The decision in 1980 to open India's off-shore fields to foreign companies marked a radical departure from previous policies. India's efforts to go-it-alone over the past two decades have undoubtedly contributed to the present, grim outlook.

In 1980, oil imports—around 22m tonnes—cost India around 85 per cent of its export earnings.

By the year 2,000, India may need up to 70m tonnes of oil a year. Even under the most optimistic assumptions, domestic production may not exceed 30m tonnes. The drain on India's foreign reserves is crippling.

The answer lies in sharply accelerated domestic oil production—though the response to the Government's first round of tenders to foreign oil companies has been disappointing—and in more efficient use of existing energy resources and boosting alternative sources of supply.

This last option essentially means coal, electricity—hydro and thermal power and biomass—or natural sources of energy, such as firewood and cowdung.

It has been calculated that there are 230m cows in India which produce 800m tonnes of wet dung. Energy exports point to China where there are believed to be anything from 5m to 20m biogas units (small plants which convert dung into gas).

Biomass

India's 600,000 villages, which have only 45,000 such units at present, could, it is suggested, produce enough energy from biomass in one year to equal seven years' consumption of kerosene for the whole country under the high conditions.

India has total coal reserves of around 110bn tonnes with proven reserves in the order of 23bn. The country ranked sixth in world output four years ago, although, since then, production has been virtually stagnant.

Indian coal is frequently of poor quality—it has a high ash content and is located mainly in eastern India, a long way from the prosperous industrial centres of the western seaboard and of central India.

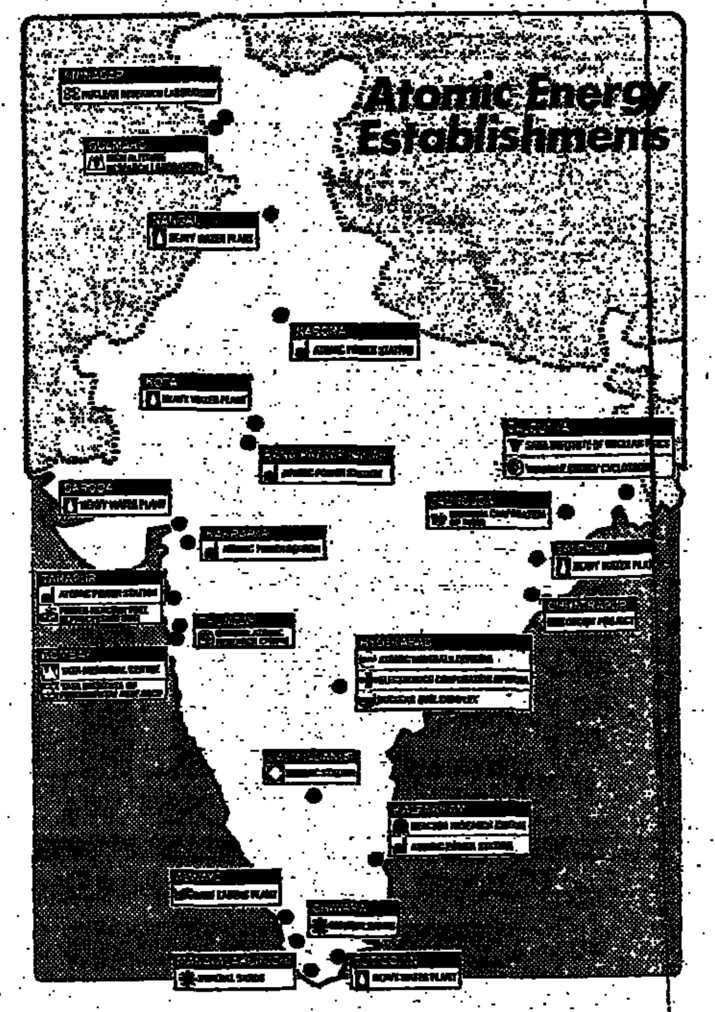
Present coal output is around 105m tonnes. Demand by the turn of the century may be four times that amount. Huge investments will be required to exploit, wash and ship this coal.

Another key decision taken by the Government has been to allow private capital to finance and develop electricity. Tata, India's major industrial empire, already has one 500 Mw plant, operating in Bombay, and has applied to build a second.

The need to boost electricity supplies as well as improve the efficiency of existing ones, is crucial. Installed capacity is around 30,000 Mw.

By the end of the next two decades, demand may be as high, if not more than, 108,000 Mw. This implies new capacity, installed at the rate of around 3,500 Mw a year, and capital investment over the same period of $4.5bn. The present rate of new capacity installed annually, is barely 2,000 Mw.

Mrs Gandhi's efforts to free the productive forces of the Indian economy by a series of key liberalisations are a vital part of her new strategy to ensure sustained economic growth. But if she cannot find a way of tapping greater and more dependable supplies of new energy at least as fast as the rate of growth of the rest of the economy, then her efforts will be in vain.



NUCLEAR PROGRAMME HIT

INDIA'S nuclear power programme has also been hit by the instability of the country's electricity supply grid. Existing power plants frequently have to shut down.

In addition, an acute shortage of heavy water for three of the country's four reactors which are pressurised heavy water reactors and which are fuelled by natural (as opposed to enriched) uranium, has added to the problem.

The country's only enriched uranium plant at Tarapur has been hit by the fuel embargo, imposed by the U.S.

Mrs Gandhi may try to renegotiate a resumption of fuel supplies when she visits Washington in July.

Two new indigenous heavy water plants are being built to cope with the problem.

Nuclear power presently supplies less than three per cent of the country's electricity. The Bombay-based Atomic Energy Commission has plans to install capacity of up to 10,000 Mw by the end of the century. The present power reactors, which are capable of yielding by-product plutonium, will help to feed the planned second-generation fast breeder reactors.

India is fortunate in having a self-sufficient nuclear fuel cycle. The country's uranium resources are believed to be sufficient to sustain a generating capacity of 10,000 mw.

India also has large resources of thorium which will be required for both the second and third generation reactors. The latter will be based on the self-sustaining thorium-uranium-233 cycle.

R. C. Murthy outlines projects based on natural gas

Rs 100bn investment plan

A MASSIVE investment of approximately Rs 100bn is either being made (or proposed) in Indian fertiliser and petrochemical projects, based on natural gas from offshore Bombay High about 120 km from Bombay. The investment will, in fact, be higher than Rs 100bn if all the natural gas available from Bombay High is to be utilised fully and economically.

The investment figure was based on free natural gas from South Bassein Fields in Bombay High and associated gas availability, assuming the crude production at 12m tonnes. An accelerated production plan is ready to raise oil production from Bombay High to 19.12m tonnes in the year to March, 1985.

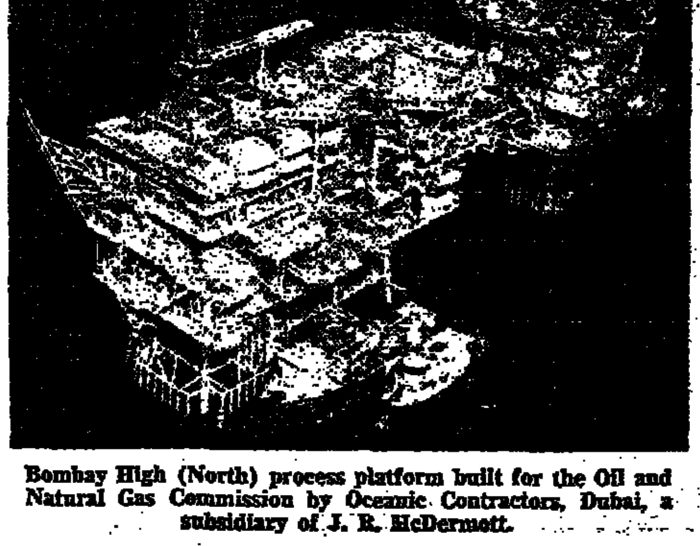
Around 6.2m cubic metres of associated gas will be available against 4m cubic metres projected earlier.

The Government has decided to set up a chain of 10 gas-based fertiliser plants, each with 1,350 tonnes per day (tpd) of ammonia.

Four plants, two each in the western states of Maharashtra and Gujerat, are already under construction. Six more are to be set up in the northern states of Uttar Pradesh and Punjab and Madhya Pradesh (central India). Four of the six plants will be in the private sector.

In addition, half a dozen plants to make a diammonium phosphate (DAP), a complex fertiliser, are being licensed by the Government to meet the shortage of phosphatic fertilisers. A Rs 500m ammonia plant of Depak Fertilisers, the first private sector Bombay High gas-based plant, will be ready for commissioning by the end of 1982.

Two petrochemical complexes are to be set up, one each in Maharashtra and Gujerat. The Maharashtra unit, which will be owned by the Indian government, will have the country's largest gas cracker.



Bombay High (North) process platform built for the Oil and Natural Gas Commission by Oceanic Contractors, Dubai, a subsidiary of J. R. McDermott.

An expert committee has suggested the unit to produce 300,000 tonnes of ethylene and 40,0000 tonnes of propylene. The gas cracker together with units of LDPE, PVC and styrene, will cost around Rs 9bn.

The Rs 6bn Gujerat petrochemical complex is smaller than its counterpart in Maharashtra. The project will have a product pattern different from the Maharashtra complex and will be in the "joint sector" (jointly owned by the Government and private sector).

ENI of Italy proposes to team up with Linde of West Germany and set up two fertiliser plants of the six gas-based fertiliser plants and the Maharashtra petrochemical complex, with offers of Italian and German credits to finance the projects.

Besides fertiliser units and gas crackers, three aromatic complexes are to be set up based on naphtha from Bombay High crude, one each in Bombay, Mathura (near Delhi), and Cochin in the southern state of Kerala. The government has given the green signal to projects for making DMT and polyester fibre and filament yarn in the private sector.

Oil companies awaiting key decisions

"IT's difficult to do business withhe Indian Government," says1 representative of the Inteational Oil Company in Indi: The Government took almc two years to choose Chewn Overseas Petroleum Corration of the U.S. and to final the terms for exploration an offshore block, called Sauhtra II, on India's westn coast.

Ocompanies concede to the Govement the right to bargn hard on the terms, but the plonged delay in decisionmakg upsets their calculation: Time is money.

Ding the two years since the vernment invited bids for 32 ohore and onshore blocks, the mber of bidders dropped frothe short-listed 34 (out of the tal 64 bids received), to a merthree.

Ptex of Mexico and Demex of West Germany. besis Chevron, are left in the racfor oil exploration rights in Iia.

Cvron has agreed to drill fivewells in Saurashtra II, invring a minimum expenditurof $47m — three wells ($2t) in the first three years, witan option to drill another twowells, later.

T U.S. oil company has agrd to sell all the oil produd from the wells at a price to determined by the Government—the profit margin is calated by a complex forula linked to the surplus gerated by oil production aft setting off exploration and delopment costs.

ternational oil companies arenot keen to join the oil hu in India. Oil analysts say themajority of blocks offered areot even second rate.

Tere are only a few blocks wit good hydrocarbon prospes and all the potential areas arereserved for the Govermet-owned agencies.

Surashtra II, for which Chron is awarded the exploratio contract, appears to be the bes and has attracted as many as ix bids out of the 32 shortlistd.

Scondly, the glut of oil in intrnational market has slowed dow investment in exploration by il majors.

Thirdly, those willing to invest make an international comparison of the returns and risks. The latest to join the south-east Asian countries in the race to attract participation of international oil companies for exploration is China, which is presumed to have large offshore oil deposits.

The strategy of accelerating participation in oil exploration and production has virtually not succeeded, although the Government hopes to invite a second round of bids. It appears that oil majors will not be able to contribute substantially to India cutting down on crude imports at any rate in the next three years. Greater involvement of foreign oil companies in India's oil exploration would depend on two factors:

Good potential

- Opening of areas that are considered to have good oil potential, such as Krishna-Godavari basin.
- Relaxing the terms for exploration and production sharing, and allowing attractive profit margins commensurate with the risks involved.

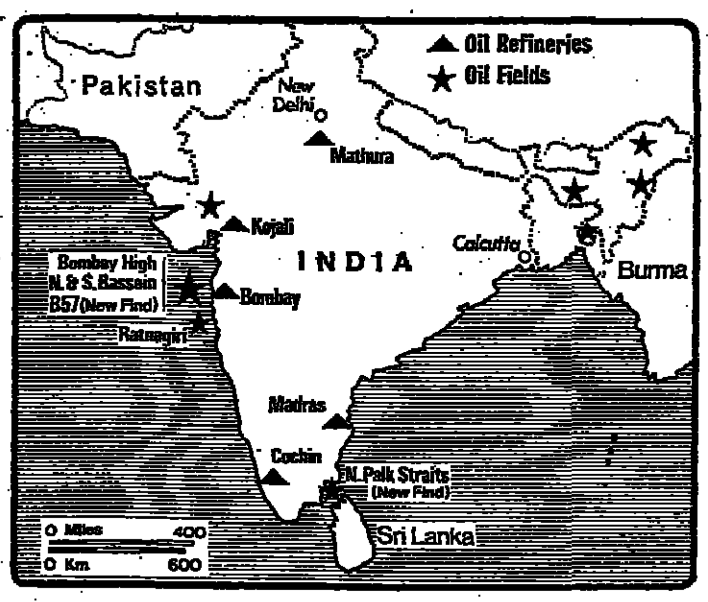
It is unlikely that the Government will offer Krishna Godavari Basin, which the World Bank described as one of the world's potential oil-bearing structures. The Government is deploying its own resources, supplemented by a World Bank loan of $100m to buy deep-sea drilling technology and equipment.

In the second round of bids, India is likely to offer liberalised terms, having found the response to the first round poor.

The slow process in inducting international oil majors in the quest for oil increases the burden on the domestic oil industry.

The Oil and Natural Gas Commission (ONGC) and Oil India, the two Government-owned organisations for exploration and production of hydrocarbons, are gearing themselves for their expanding role.

New technologies are being introduced. Helicopters are airlifting men and equipment to Gotaru, an inaccessible desert location in the northern state of Rajasthan, instead of using the surface transport. This method is found to be cheaper and faster than laying roads and communications facilities first only to be abandoned later if no hydrocarbons are found.



But it is a long haul for India to self-sufficiency in oil. The immediate objective is to produce 30m tonnes of oil by the year to March 1985.

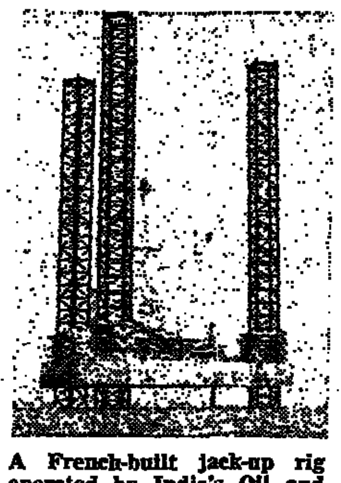
Bombay High oil fields are to yield 19.12m tonnes. Onshore fields in the western state of Gujerat and the north-eastern state of Assam are being geared to produce about 11m tonnes. The production of 30m tonnes will meet 70 per cent of India's needs of oil by 1984-85, against 30 per cent domestic oil component at present.

The crucial aspect is domestic oil availability will be seen after 1985. An official working group on energy policy estimated a minimum three-fold increase in oil requirements to 1.80m barrels a day in the year 2000.

Demand for oil is expected to grow at around 10 per cent a year, against 6 per cent annual increase in the past three years, when the consumption was depressed by a sharp increase in petroleum product prices. The price of gasoline had almost doubled to Rs 6.15 per litre from Rs 3.15 per litre, in four years.

The Government plans to introduce, within two years, a cheap but fuel-efficient, small car made by the Government-owned company of Maruti, with Japanese collaboration. The entire automobile industry is undergoing technological upgrading and expansion by infusion of foreign expertise.

The oil and natural gas commission has formulated a ten-year plan for hydrocarbons exploration. The plan, which involves an investment of Rs 289.95bn is now under way to explore for oil and produce 60m tonnes by 1990.



A French-built jack-up rig operated by India's Oil and Natural Gas Commission

Oil India, which is prospecting for oil in Assam and Mahanadi Basin in eastern India, is working on a similar 10-year investment plan. This is a massive investment and the two organisations will have to use the resources judiciously to achieve results.

ONGC has found oil in Palk Bay, the small strip of sea between India and Sri Lanka, but the size of the structure is still to be established. Two of the three wells drilled, so far, are dry.

India is pinning hopes on the offshore Godavari structure, where Sedco, under contract with ONGC, has deployed a sophisticated vessel to drill in as hazardous conditions as in the North Sea. If the Godavari Basin proves to be another Bombay High, India's oil problem is solved for the next 10 years.

R. C. Murthy

There will soon be an Indian cosmonaut in space now that the Government has accepted a Soviet offer to train and send one as a companion to a Russian.

New developments come close to matching capabilities of more advanced nations

THE spindle-shaped backwater island of Sriharikota, off Andhra Pradesh, in South India, was until a few years ago a desolate stretch filled with jungles, used for firewood. Even so, the island's location and desolation favoured its choice, in 1969, as a site for launching earth satellites.

The isolation is suited to the testing and launching of powerful rockets, while the east coast location can help a launch vehicle to take advantage of earth's east-west rotation.

Sriharikota is now a hive of activity after the original Thumba Equatorial Rocket Launching Station, near Trivandrum, in Kerala, where India's space programme made a modest beginning in 1963, became inadequate for the more ambitious plans to place satellites in orbit.

The Sriharikota range—shortened to Shar, or an arrow—is the most extensive establishment of the Indian Space Research Organisation (ISRO). The 33,000-acre island is an enormous complex of technical facilities and a township for the 1,500 people engaged in its varied operations.

Research and technology development remains concentrated at the Vikram Sarabhai Space Centre at Trivandrum, the largest, technically, because nearly 5,000 people work there and at the Thumba Rocket Station.

ISRO has two more principal centres at Bangalore—for the development and fabrication of satellites—and at Ahmedabad, in Gujarat, for research in and co-ordination of space applications. Overall control for the $1bn 10-year space programme is centred at Bangalore.

Indian satellites, although made and launched from Florida and Guyana, already circle the globe to improve telecommunications, meteorology and other modern applications.

But clearly the most dramatic development was the successful launch in May, 1981, of the space launching vehicle (SLV-3) from Shar which placed a 38 kg satellite into orbit (the satellite itself came down in nine days, much earlier than the 90 days planned for it).

The development is important because Indian scientists and engineers depended almost entirely on their own skills at almost every stage of design and fabrication.

Of the 17 tons that SLV-3 weighed, 13 tons was taken up by the solid propellant that Indian scientists developed after France asked millions of francs for it in 1972. The solid propellants for the main rocket and the liquid ones for the small control rockets are now made at plants at Alwaye in Kerala and at the Electrochemical Research Institute.

These advances put the Indian space effort well on the way to matching the capabilities of the more advanced nations (and, incidentally, gives it the option to make long-range ballistic missiles).

The SLV-3 is similar to the U.S. Scout which has proved to be a reliable and relatively inexpensive launch vehicle for small satellites for a variety of scientific missions.

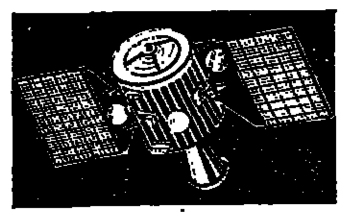
Like the Scout, the SLV-3 was a four-stage rocket with a total thrust of 176,000 pounds. The first two stages had metal casings, with stringent metallurgical and structural specifications; the fibre glass used for the third and fourth stages called for still more sophisticated manufacture.

Equally important is the fact that 90 per cent of the 10,000 major components of the 44 major sub-systems of the rocket were manufactured in India—a fault operation of even one component could have wrecked the entire experiment. The complex instrumentation of the rocket, the satellite and the ground facilities for monitoring and controlling pre-launch and post-launch operations were all made in India—a tribute to Indian skill, talent and innovation that is not always apparent in other high-technology areas.

The satellite programme is also far ahead, although much of the fabrication of those already orbited has been left to countries such as the Soviet Union, the U.S. and France. This is inevitable if India is to take advantage of what the Department of Space calls the "application-oriented projects designed to secure tangible socio-economic benefits for the nation."

This refers to communications systems, observations for hydrology, forestry, oceanography and meteorology.

The early benefits of satellites for these activities need quick fabrication of the systems involved and India is still an infant in these areas, although the Apple (Ariene passenger payload experiment) was made in the country itself.



The Indian-built "Apple" (Ariane passenger payload experiment) has revolutionised India's communications network.

Apple is now in geocentric orbit through courtesy of the European Space Agency, although the final boost motor needed to push it into position was Indian-made. This is a highly sophisticated piece of engineering which China does not have at present.

Similarly, NASA has already built and orbited the Indian National Satellite (Insat) system. These have been intended for the collection of meteorological data and direct television broadcasting.

Further Insat satellites will be designed and fabricated in India and there will be some saving in foreign exchange—the first of the Insat satellites cost $170m—apart from further improving India's technology.

Bhaskara II, India's second experimental earth observation satellite, was launched from a Soviet cosmodrone last November and it continues the remote sensing of the country's resources and geography, begun by Bhaskara I.

The second satellite is a greatly improved version and can, for instance, differentiate between water vapour and liquid vapour in the atmosphere.

Having done all this, ISRO has now framed a new decade profile for the 1980s. Now that there is a technological base and infrastructure for long-term self-reliant space programme by developing sounding rockets, satellite launch vehicles and satellite technology, the Indian space programme is charting the course to develop semi-operational and operational systems for practical space applications.

The decade will also witness the development of an Indian Remote Sensing (IRS) satellite series for the effective utilisation of remote sensing technology and to promote the establishment of a national natural resources survey and management system.

A major new launch vehicle, PSLV, capable of orbiting 1,000 kg satellites in Polar sun-synchronous orbit, is now being developed, and this will put space technology further ahead, although the timing is still uncertain because of the difficulty of obtaining funds for the effort.

But if this is not dramatic enough, there will soon be an Indian cosmonaut in space now that the Government has accepted a Soviet offer to train and send one as a companion to a Russian.

This move is gimmickry, however, and the Indian space scientists do not need this to claim applause for their efforts.

K. K. Sharma

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Mrs. Gandhi dominates the political stage, but with the memory of the emergency and her own defeat still fresh in people's minds, she has to tread carefully

Some of the far flung electorate of Indira Gandhi

Speculation grows over possible constitutional changes

IN THE back lanes of India's southernmost state of Kerala, parched by pre-monsoon heat, men pedel rickety bicycles fitted with loud-speakers and transistorised tape recorders.

As they weave their way round boulders and stray cows the voice of Indira Gandhi, India's political superstar, echoes across the countryside, urging her electorate not to be misled by the false promises of the opposition.

The ingenious concept of political pedal power was first conceived by Mrs Gandhi's party managers in the run-up to the 1980 elections which swept her back to power after three years in the wilderness, having been cast there by an *electorate outraged at the* excesses of the 1975-77 Emergency.

The vote-for-me bicycle neatly symbolises two of the most basic facts of Indian political life today. The first, and most obvious, is that the sheer size of the country and the number of people make the task of building an effective, nationwide party organisation which can reach, control and hold the furthest corners of the union virtually impossible.

Main issue

Unlike the United States—the only other democracy in the world of remotely comparable size—India's 685m people, spread across 22 states, speak 14 major languages, hundreds of dialects and, more often than not, feel as much loyalty to the centre as a Scottish Nationalist does to London.

The second reality of Indian politics today is that there is only one real issue which unites or divides people on a national scale and that is whether one is for or against Indira Gandhi.

The only exception to this rough rule of thumb is those small number of states—West Bengal, Kerala and the tiny outpost of Triura—where India's ineffective Communist Party has been able to put down roots. There the issues are sometimes fought, by no means always, on more conventional groups.

But the Communists present no real threat, either to Mrs Gandhi or to what might be described as "the ruling establishment," on a national scale. Their identity, weakened in recent years by interminable splits which sometimes reflect just party infighting, remains submerged for the over-riding preoccupation of most Indians with caste and communal boundaries.

Even the Communists, however, have recently been affected by the Indira factor. The Communist Party of India (CPI), the smaller pro-Moscow faction of the movement, is now split between those who are willing to back the Prime Minister out of loyalty to the Kremlin—for whom the Indian relationship is vital—and those who see this as a betrayal of t. ir faith.

Mrs Gandhi's unquestioned dominance of the political stage is also helped by disarray *within the opposition's ranks.* Repeated attempts by some or all of the parties who had come together in 1977 to defeat Mrs Gandhi, under the umbrella of the Janata coalition, have failed miserably.

The inability of leading figures such as Jagjivan Ram, who commands millions of votes among India's untouchables; and Charan Singh, the Lok Dal's "old man of the sea," and others who have held high office to coalesce effectively even on such a tenuous platform as getting Mrs Gandhi out of office, remains a curious enigma.

But Mrs Gandhi's dominance carries with it its own problems. The most important of these, say her critics, is that it is at the expense of a sound Congress (I) Party structure which would be able to carry on without her.

The Congress (I), which she formed in 1979, after splitting from now innocuous parent party, is far from being a disciplined, tightly-run organisation. Infighting and factionalism is on the increase. Defections are not uncommon. Some corruption cases have badly dented the party image. The glue which holds it together is Mrs Gandhi's considerable pulling *power, and not much else.*

Mrs Gandhi and her advisers have been made a virtue out of this. In recent state elections, Congress (I) candiates campaigned on the basis that a vote for them will be a vote for good relations with New Delhi. This is of crucial importance in India where relations between the centre and the states are an important factor in economic development.

The hostile international environment and, in particular, the tension with Pakistan and the United States over the supply of American F-16s to Islamabad, have further strengthened Mrs Gahdhi's position.

She argues, with some force, that a strong, central government is important if such threats are to be effectively dealt with.

There is also the fact that, since coming back to power in 1980, Mrs Gandhi's first priorities were not to cope with parochial party matters but with putting the economy back on its feet, getting the civil service moving and implementing badly needed reforms.

She can also point to the fact that the difference between the India she presides over and the one presided over by her father, Jawaharlal Nehru, whose period of office has assumed an almost Arthurian status, is that today the unique bond forged out of the country's struggle for independence is memory for many and history for most Indians.

The gradual erosion of the national and therefore the congress consensus was inevitable—The resurfacing of regional and communal politicis equally so. In that sense, Mrs Gandhi's task is much harder than her father's.

This having been said, however, the parlous state of the Congress (I) is of increasing concern to a number of its supporters.

The small and (in political terms), relatively insignificant quarrel between Mrs Gandhi and the widow of her son, Sanjay who died in an air crash, underlined this fragility.

The quarrel came to a head when Maneka Gandhi, who is only 25, openly defied her mother-in-law and attended a political rally in the northern city of Lucknow, ostensibly to revive the flagging spirit of her dead husband's policies.

However *disliked he may* have been, even Sanjay's harshest critics concede that he knew what he wanted, that he had some clear policies and he implemented them effectively, if ruthlessly.

Mrs Gandhi responed by asking Maneka to leave her house, acting out a classic Indian set-piece family feud. She suspected, not entirely without reason, that Maneka and the remnants of Sanjay's cabal were out to establish an independent power base by attacking her and through *her other son, Rajiv,* who is now being groomed as the heir apparent.

Increasingly, Mrs Ghandi's suporters are asking whether Rajiv, who reluctantly abandoned his career as an Indian Airline pilot, as well as his private life, to step into Sanjay's shoes, will rise to the occasion when the time comes. That remains to be seen.

As one obeserver put it: "Rajiv has plenty of time and, furthermore, whatever his qualities may be, he is wisely avoiding the kind of tactics that Sanjay went in for."

There is, nevertheless, an absence *of alternative choices* which, in any other democratic party would be regarded as alarming.

There is growing speculation that Mrs Gandhi is keen to make constitutional changes which would enhance the role of the capital through a presidential system not unlike France's. The aim would be to more easily push through reforms and weld the country closer together.

But with the memory of the emergency and her own defeat still fresh in people's minds, Mrs Gandhi has to tread carefully. In any case, as one editor put it: "Turning the Prime Minister into the President isn't going to prepare the ground for her succession, any more than it will solve India's problems.

"A more effective and united political machine, on the other hand, might help."

Alain Cass

Left-wing demonstrators on their way to the U.S. Embassy in New Delhi

A diversity of parties

THE RULING party in India is the Indian National Congress (I)—the "I" for Indira—which is dominated by Prime Minister Indira Gandhi. She is its *President,* mother figure, policy-maker, office-bearer appointer and just about everything that counts in the party.

The party was formed in 1979 when Mrs Gandhi broke away from the parent Congress Party when it went into opposition after being defeated by the Janata Party, in 1977.

It professes to have a Gandhian (after the Mahatma, not the Prime Minister) socialist policy but this is extremely ambivalent.

It purports to be left-of-the-centre, but is really pragmatic

Indian National Congress Party

in its beliefs. Recently, for instance, Mrs Gandhi has been following a Right-wing economic policy while apparently accepting overtures to her from the Communists.

The Congress (I) has never held internal elections so it is not known what its popular base is; it is possible that it has none, and relies on Mrs Gandhi's undoubted charisma for its support.

The party has an executive of nominated members (by Mrs Gandhi) who form the working committee. But, in effect, only two people count *in the party:* Mrs Gandhi and her chosen heir apparent and son, Mr Rajiv Gandhi.

Until the recent by-elections, on May 19, the Congress had a strength of 351 in a Parliament of 542 members.

The opposition is fragmented into innumerable groups, none of which qualify for recognition as a distinct political party because none has the requisite 10 per cent of the seats in Parliament.

Broadly speaking, it consists of groups formed by fragments of the Janata Party which cracked up in July, 1979, when the Morarji Desai Government

Communist Party of India

collapsed and with it, the experiment of the merger of five parties into a single organisation.

The other extreme is represented by the Communist Party (Marxists) and the Communist Party of India (drawing its inspiration from Russia).

The Janata Party itself is what remains of the Janata experiment that lasted from 1977 to 1979. It consists mostly now of former Congress leaders opposed to Mrs Gandhi for personal, rather than tical, reasons. Among its bers is Mr Morarji Desai, th anata Prime Minister for th short period that the party r the country, although its P ident is Mr Chandra Shekh

Like the Congress, also follows a vague G hian socialist policy but has dis-tinct ideology. Its stre h in Parliament is 31.

A bigger splinter g p is the Lok Dal, with 41 bers in Parliament. Led the ageing "Jat" (hi caste farmer in northern ates) leader, Mr Charan Sing who headed the caretaker ern-ment when the Jana col-lapsed, the Lok Dal ple's Party) has a following the northern states amo the farmers whose interests eeks to project. But its m bers also consist of former omi-nent socialists such Mr George Fernandes a Mr Madhu Limaye whose own party has vanished fr the Indian political scene.

Although less im tant numerically, with just 1 mem-bers in Parliament, the Bharatiya Janata Party JP) led by Mr Atal Behari Va yee, who was Foreign M ster in the Janata governm is the more important the oppositon parties. It is ally the successor of the ndu-extremist, Jana Sangh the political offshoot of the ash-triya Swyamsewak ngh (RSS), which wound its up when it merged with the Janata Party in 1977.

Janata Party

The party has now bee re-born under a new name but remains essentially the pre-sentative of the ban orthodox Hindus with a ha ker-ing for what it thinks is rue Indian culture.

The Communist arty (Marxists), or CPM as is popularly known, has 35 eats in parliament. Its ideol y is Marxist, but it remained loof from both Peking and M cow until its last Congres in March when the party se med to be veering towards the Russians.

The Marxists' main loss are in West Bengal which the rule and the southern state of K rala. They also form the gover ment in Tripura State and have pockets of strength all over India, especially among f tory workers. The most pro ment Marxist is Mr Promode Das Gupta of West Bengal.

The same is the case with the Russia-leaning Com unist Party of India (CPI) who fol-lowers are fading. It ha just nine members in Parli ment who *fervently espouse* th Soviet cause, part of wh h s to stoutly support Mrs G ndi. She treats them distantl a this has inevitably lost the popular support, althoug t e CPI still controls some unio s.

K. K. Sharna

INDIA—VII

FOREIGN POLICY

India's foreign policy is governed by three main pre-occupations: relations with Pakistan, her position as leader of the non-aligned movement in the Third World and her relationships with the two superpowers.

New initiatives aim to attract more overseas capital

INDIAN foreign policy is on the move again after a long period of relative quiescence.

Mrs Indira Gandhi, the Prime Minister, has just completed a round of European visits which—in the case of Britain, in particular—seem to mark a new departure.

These are to be followed late in the year with visits both to the Soviet Union and the U.S. Although the original intention to carry these out in June and July has been postponed, partly because of Soviet irritation at the fact that Mrs Gandhi pointedly announced her intention to make the trips almost simultaneously: and partly because the dates did not suit the U.S., there is no reason to suppose that they will rail through. Of the two visits the one to the U.S. is, fo course, by far the most significant.

Mrs Gandhi was last in the U.S. before the emergency in 1975. Since then, relations (always never much more than correct) have taken a nose-dive, partly due to the U.S. decision to cancel the contract for the supply of uranium to India's Tarapur nuclear plant, partly due to America's open hostility to the $5.2bn aid to Pakistan in the shape of an arms package which includes F.16 combat aircraft.

Mrs Gandhi apparently believes that "we do not figure in the U.S. scheme of things." Presumably, the intended visit to Washington is to correct that oversight.

President Reagan, for his part, will be eager to do whatever he can do to wean India away from the Soviet Union and allay fears in New Delhi over America's attempts to build a strategic consensus in the Gulf and West Asia to replace the fall of the Shah and the untimely death of President Anwar Sadat of Egypt.

Mrs Gandhi has just returned from Saudi Arabia, the heartland of the Muslim world. The visit was of immense significance because of the Kingdom's strong links with Pakistan as well as its support of U.S. policies in the region.

Mrs Gandhi has also resumed talks with China in an attempt to normalise relations which have yet to recover from the war in 1962. This left India defeated, demoralised and isolated driving her more closely into the waiting arms of the Soviet Union.

It is not yet clear whether all this activity is the forerunner of any radical departure in foreign policy.

In New Delhi the twin aims of economic growth, and hence poltical stability, at home, and the maintenance of a dominant position in the subcontinent, can only be achieved through a more flexible foreign policy which owes less to the present overwhelming dependance on the Soviet Union.

The visits to Britain and France mark a distinct tilt towards Europe. This, Delhi hopes, will help to create a favourable political climate which, coupled with the increasing liberalisation of the economy, will attract foreign capital.

In this context, the IMF loan is of major symbolic importance and marks a return to the policies of the 1950s when Mrs Gandhi's father, Jawaharlal Nehru, combined Western capital with a carefully balanced foreign policy to make huge strides in building post-independence India.

India has also been rapidly diversifying her sources of arms supplies in the past two years. The military logic for this is dubious, as many of Mrs Gandhi's own advisers have pointed out the political advantages are, however, unquestionable.

As always, India's foreign policy is governed by three main preoccupations. Relations with Pakistan, India's position as leader of the non-aligned movement in the Third World and her relationship with the two superpowers.

All of these are, in some sense, likely to be affected by Mrs Gandhi's new approach since coming back to power in 1980.

Relations with the Soviet Union are already showing signs of stress. Although the Russians have been particularly careful not to offend Indian sensibilities by interfering in domestic policy, they cannot be happy at the IMF loan any more than at what Left-wingers within India describe as her "slow drift to the right."

Beyond this and more significantly, the policy to purchase Western arms, the visit to the U.S. India's lukewarm (as the Russians see it) support for Soviet policies in Afghanistan and whole tenor of Delhi's more even-handed approach are irritating to the Kremlin for whom India is the linchpin of its policies in Asia and indeed the Third World, as a whole.

None of this, however, is likely to break out into the open. The Russians value their relationship with India far too much for that. Mrs Gandhi, on the other hand, knows that while an apparent distancing from the Soviet Union can usefully increase her leverage over the Kremlin an open breach would again leave India vulnerable and, ultimately, friendless.

In the event of a war with Pakistan, for example, Soviet political, military and economic support could prove decisive.

This eventuality is not entirely beyond the realms of possibility. War with Pakistan is still the most likely flashpoint on the subcontinent and both sides appear increasingly preoccupied with the possibility.

So great is the residual hostility and mutual suspicion of both sides that most attempts at dialogue end in failure such as the recent desultory negotiations, begun amid much fanfare only to be abruptly broken off, on a no-war pact.

India regards the arming of President Zia's military regime by the U.S. as dangerous and ill-advised. American F-16s will ultimately be used, not to face any threat from the Russians in Afghanistan officials argue, but to attack India.

Anxieties

They point to Pakistan's apparent attempt to manufacture a nuclear weapon. Beyond this, there is fear, never officially expressed because of its explosive potential, that a damaging war with a fundamentalist Muslim regime in Pakistan could ignite volatile religious passions within India with unforeseable consequences.

The Pakistanis, for their part, point to India's massive arms programme and the apparent lack of urgency in New Delhi to find a lasting formula for sensible relations in the future.

Remarkably sure-footed as she has proved in guiding India in foreign policy and sensible as her new initiatives may be, if Mrs Gandhi does not work quickly for a lasting peace with Pakistan, a fourth and much more damaging war for both sides cannot be ruled out.

The consequences of that conflict would be to isolate India again, increase even further her dependance on the Soviet Union and set her present initiatives back by years.

Alain Cass

Mrs Margaret Thatcher, Britain's Prime Minister, chats with Mrs Gandhi—the Indian Prime Minister's visits to Britain and France mark a distinct tilt in foreign policy towards Western Europe

Delhi's more even-handed approach irritates the Kremlin

Relations with the Soviet Union are showing signs of stress

WHEN A Soviet minister made his annual pilgrimage to India early this year, he asked his hosts: "How many people speak Russian in your country?". There was no count, but he smiled with pleasure when told that there was an institute teaching the Russian language in almost every state.

Assuming that every institute turns out 50 graduates a year, there must be roughly 2,000 Indians added every year to the growing number whose main foreign language is no longer English but Russian. They have been taught Russian history, Russian literature and, of course, given a crash course in Russian ideology—all with the blessings of the Indian Government. Russian is also taught in many schools.

What would not have pleased the Soviet minister is the fact that gaining admission to one of the Russian institutes — all subsidised by Soviet grants—is not exactly the most prized achievement of students leaving school and seeking university education. In fact, applications are made to the institutes by students who fail to win admission anywhere else.

Still, there is an increasing number of Indians who speak Russian and this is symbolic of the close and expanding links with the Soviet Union. The Russians guard the new Delhi connection jealously and nearly miscalculated when Mrs Gandhi lost the 1977 general election and was replaced by the Janata Government.

Relationship

The Soviet Foreign Minister, Mr Andrei Gromyko, was despatched post haste to New Delhi to establish a working relationship with the new leaders. Obviously (and wrongly) calculating that the Janata leaders were there to stay, the Russians totally ignored Mrs Gandhi when she was in the wilderness. This could have not endeared them to her.

As if to make up for their neglect, Mr Brezhnev himself came to visit Mrs Gandhi when she won the 1980 election, promising undying Russian friendship with the Indians and virtual *carte blanche* to the Government.

It is of some significance that Mrs Gandhi, despite a great deal of Soviet pressure, has still to return the visit and that, when she announced the probable date of the trip to Russia, she also declared that she would visit President Reagan in Washington.

The trip to Russia will undoubtedly be made and the Moscow link—some describe it as the Moscow—New Delhi axis—remains undiluted. There are compelling reasons for the Moscow connection to continue to be strong. As the Russians never fail to point out with embrrassing regularity, the Soviet Union is India's most reliable political ally, a supplier of massive amounts of sophisticated weaponry at absurdly low prices, the largest single trading partner, builder of much of India's heavy industrial plants and champion of India's cause at whatever forum support is needed.

The truth is that the Moscow connection is so all-embracing that it is becoming embarrasing to the Indians.

New Delhi follows, after all, a policy of non-alignment. Yet there is hardly any country that does not believe that there *is* a distinct tilt towards Russia, especially now that relations with the U.S. are becoming increasingly sour.

The Janata Government underscored this by announcing that it would follow a policy of "genuine non-alignment," implicit in this is that Mr Morarji Desai, the Janata Prime Minister, felt that India's non-alignment was not "genuine" because of the tilt towards Russia.

Yet even the Janata Government soon realised that ties with Russia were too firmly established to be easily shaken off. The Soviets had always been wooing India and this intensified with the break with China. The link was institutionalised with the signing of the Indo-Soviet Treaty of Friendship in 1971, shortly before the war over Bangladesh, when Mrs Gandhi badly needed international support.

Since then, Indio-Soviet relations have expanded in every field. Russian weapons arm the Air Force, which has MiGs of every generation up to the MiG-25 and will soon acquire the MiG-27, the Army (tanks and artillery), and even the Navy.

The Soviet Union *is* India's largest single trading partner. Of the total exports of Rs68bn in 1981, about Rs21bn, or 40 per cent, went to Russia. In 1982, the target for exports to the Soviet Union is Rs32bn.

Barter deal

Imports are equally heavy and are paid for not in scarce convertible currency, but in goods under what is virtually a barter deal worked out in annual trade plans, with deficits being settled through "technical credits" in rupees.

Russia has willingly supplied such vital items as crude, petroleum products and fertilisers when they were not available elsewhere—and even diverted food ships from the U.S. to India some years ago when a famine threatened, despite its own domestic shortages.

The links in many other fields are as large because the Russians—even though they they strike a hard bargain and have been found to be re-exporting Indian goods to Western Europe for hard currency—have assiduously cultivated India. The result, whether the Indians like it or not, is that India is considered all over the world as Russia's only ally outside the Communist bloc.

The Indians do not really like this. Even Mrs Gandhi's support of the Soviet invasion of Afghanistan was soon modified and the Indian Government now supports the demand for the Russian military withdrawal, in terms of a resolution adopted by the non-aligned foreign ministers' conference, last year.

Indians find the Russians—with rare exceptions—overbearing and difficult to get on with and, being naturally gregarious, find it difficult to understand their ghetto-like existence in places where they work in India. The Russian Embassy in New Delhi's diplomatic enclave is floodlit and has searchlights beaming outwards, obviously to prevent intrusions — and defections. (Stalin's daughter defected to the U.S. embassy in New Delhi in the early 1970s.)

Many Indians may speak Russian, but they don't really speak the same language politically, culturally and socially. Even in the matter of defence equipment, the Indian Government is deliberately diversifying its sources of supply to avoid excessive defendence on Russia. But economics and politics have their own compulsions and, willy nilly, the Moscow connection remains strong.

K. K. Sharma

INDIA—VIII

AGRICULTURE

Almost 75 per cent of Indians owe their living to the land, and agriculture accounts for around 40 per cent of the country's gross national product, but average crop yields are still extremely poor.

Depressing picture despite important achievements

MUCH HAS rightly been made of what appears to be India's new found self-sufficiency in foodgrains, most notably in wheat and rice, the recent imports of 2.3m tonnes of wheat to build up stocks which earlier this year had fallen to dangerously low levels do not hide the fact that in 1979 India survived without famine or imports what many now say was perhaps the worst drought of the century.

For a country that less than 10 years ago was importing around $1bn worth of grains a year this has been an important achievement.

Elsewhere, however, like the British weather, much of Indian agriculture reveals an essentially depressing picture, with a few bright spots filtering through the clouds. Even foodgrain self-sufficiency is at per capita consumption levels which leave millions without sufficient protein-intake for a healthy life. Output of a number of crops has hardly kept pace with the inexorable growth to the country's population.

In some important non-cereal food crops output has actually declined in per capita terms over the past 15 years. The "green revolution," which has done so much to boost grain yields in the States of Punjab and Haryana, has left many parts of the country untouched.

The new seed technology has been largely confined to wheat and rice, leaving a whole range of important food crops with average yields only marginally better than they were at independence more than 30 years ago.

More than 65 per cent of the country's 175m hectares of agricultural land remains unirrigated, leaving a large proportion of the 510m or so population, who are dependent on the land for their survival, to the vagaries of the monsoon and just one crop a year.

Poverty

According to the World Bank well over 50 per cent of Indian farmers and rural labourers live at appallingly low levels of poverty and unable to obtain the minimum protein requirements.

Around 120m rural people remain landless, while according to the 1976-77 agricultural census more than half of the 82m families who own land depend on farms smaller than the one hectare necessary to support them at subsistence level.

Together, these two categories, accounting for around 350m people, make up the bulk of India's poverty-stricken masses.

Although India has become an industrial power in its own right, agriculture is still the mainstay of its economy and by far the largest single employer in the country. Almost 75 per cent of Indians owe their living to the land, and agriculture accounts for around 40 per cent of the country's gross national product.

If India is ever to stem the growing tide of poverty it will therefore have not only to look to industry and the over-population problem: it will also have to find a way of inducing a much faster agricultural growth rate and a much more productive and intensive use of its agricultural land.

The average annual growth rate for Indian agriculture in the past 15 years has been just 2.7 per cent, well below the 3.1 per cent recorded in the first 15 years after independence. With the population expanding at well over 2 per cent per annum in the past decade and a half, Indian agriculture has had to run fast just to keep marginally ahead.

Of the eight major crops listed in India's annual economic survey (cereals, pulses, oilseeds, sugar cane, cotton, jute, mesta and potatoes) only three—cereal, potatoes and sugar—have made significant strides in production during the past 15 years.

On a five-year moving average, cereals production did well to record a 33 per cent improvement between 1966-70 and 1976-1980, while from a small base potatoes leapt 100 per cent and sugar 33 per cent. For the rest, production gains were dismal.

In terms of per capita availability, even sugar was all but stagnant during the period, while oilseeds and pulses actually declined by more than 10 per cent.

Indian agricultural productivity is generally extremely poor, even by Third World standards. China, for example, feeds its population of one billion from 125m hectares. India has 175m hectares, to feed its 684m population.

Average Indian crop yields are extremely poor. According to V. I. Chacko, president of the International Centre for Plantation Studies at Bangalore, in wheat India is 35th in the world league, in rice 38th, in cotton *42nd and, despite having the* largest area under sugar cane anywhere in the world, yields are half those in many other sugar-producing areas.

Of all the non-foodgrain crops, work on oilseeds is certainly the most pressing. For several years now, India has been importing edible oils to the value of up to $800m a year, and this has become a major drain on the country's precious foreign exchange reserves.

Production

Even without new scientific research, seeds are available which could boost yields by at least 25 per cent. In the past 15 years production of the five major oilseeds has increased by a mere 11 per cent, and yields per hectare have hardly increased at all during the past 10 years.

Much greater efforts too need to be concentrated on boosting cotton and pulse yields, which are among the lowest in the world. Pulse production is actually lower than it was at independence, and yields per hectare have actually declined in the past two decades.

Next to wheat, rice and oilseeds perhaps the most important scientific breakthrough which Indian agriculture requires is a revolution in seed technology and improved agricultural practices for dry farming. Far too few resources have been committed to a sector where poverty is the greatest, productivity the lowest, and potential perhaps the highest.

To many people, land reform means an increase in the number of smaller holdings at the expense of rich landowners. If all India's agricultural land was to be divided equally among its rural inhabitants, the average holding would be a mere 4 acres per family, just about enough to support them at a subsistence level, there would be insufficient agricultural surplus to feed the 200m or so Indians who live in the cities.

What is needed is a reduction in the number of families operating landholdings of 5 hectares or less, (60m). Such farmers have almost no ability to save and therefore to lay out money on tube-wells, fertilisers and other inputs needed to boost agricultural productivity and employment.

Irrigation is of vital importance. No one is in any doubt that the most essential first step to raising agricultural output and rural living standards is to irrigate the 120m hectares which are still wholly dependent on the monsoon. Irrigation can mean the difference between one crop a year and three, and can raise yields per hectare several times over.

The World Bank is pouring enormous resources into irrigation, but petty inter-State disputes over access to rivers has slowed progress in some areas.

Much of India's vast river systems are nowhere near fully tapped. Some 75 per cent of river water ends up flowing unused into the sea. Elsewhere there has been an over-concentration on big and expensive schemes.

So far, however, the most neglected aspect of Indian agriculture has been the need for a diversification of technological, scientific and manpower resources to crops other than wheat and rice.

Richard Cowper

AGRICULTURAL OUTPUT

(kilograms per capita)*

Five-year average	Cereals	Pulses	Oilseeds	Jute and mesta	Sugar	Cotton
1951-52 to 1955-56	139	26	14	2.3	15	1.6
1956-57 to 1960-61	148	28	16	2.5	19	1.8
1961-62 to 1965-66	150	24	16	2.9	24	1.1
1966-67 to 1970-71	159	21	15	2.1	23	1.8
1971-72 to 1975-76	162	19	15	2.0	23	1.9
1976-77 to 1980-81	171	17	13	2.2	24	1.9
Per cent change over 3 decades	+17	−35	−7	−4	+60	+19

* A per capita output in this table is equivalent to per capita domestic availability. Average production for each half decade is divided by India's average population for the same period.

Sources: Government agricultural and population statistics

AGRICULTURAL PRODUCTION INDEX

(1969-70=100)

Commodity group	1976-77	1977-78	1978-79	1979-80	1980
Foodgrains*	115.7	133.6	139.3	114.8	13[illegible]
Oilseeds†	103.9	116.5	121.6	108.5	11[illegible]
Fibres‡	106.3	125.3	139.4	133.9	13[illegible]
Plantation crops§	139.3	151.9	151.2	155.1	1[illegible]
Others¶	131.4	148.1	131.8	109.3	1[illegible]
All crops	116.4	132.7	137.8	117.2	1[illegible]

* This includes wheat, rice and pulses; † Includes groundnut, rapeseed, mustard and other minor oilseeds; ‡ Includes cotton, jute and mesta; § Includes tea, coffee, rubber; ¶ Includes sugar-cane, tobacco and potato.

Source: Government of India 1981-82 economic survey.

500m Indians work on the land

WHEN THE short-lived euphoria of freedom was over and the bloodletting that followed partition was past, on the surface, at least, there seemed little to choose between Jagjit Singh Hara and Shankar Solaba. Both *owed their living to the soil* and both were landless and poor.

Today almost 35 years on—Jagjit Singh boasts a swimming pool, a large bank account and a reputation for being one of India 's most outstanding farmers.

Sankar Solaba is the not-very-proud owner of a small, hilly dust-beaten plot of land; he lives in a squalid mud hut and has less than two rupees to his name.

As a capable and efficient farmer Jagjit could hold his own with the best small farmers in Europe and North America, while Shankar offers a stark reminder of the depths of poverty and deprivation which still prevail throughout much of the Indian countryside more than three decades after independence.

Reasons there are many: Of personality, caste and fate, of attitudes to modernisation and new methods, of poor central government (agricultural) policy and administration, of the relative strengths and weaknesses of state government, of access to capital, agricultural inputs and good land in sufficient quantity, above all of access to water, quick and easy solutions there are none.

Jagjit Singh and his Jhat Sikh parents were among the 11m or so people who were forced to flee their homes when India was *divided in 1947.*

"We didn't want to leave. In those days it was the part of the Punjab, on the Pakistan side, that was the granary of India and boasted the best canal irrigation system in the sub-continent. We had no choice. *We lost our house, our chattels,* our 25-acre farm. Everything except our lives."

From the veranda of his ultra-modern bungalow Jagjit surveys his 90-acre farm, which today dominates Kanganwal (Bridal Bangle) village just five miles outside the city of Ludhiana on the Indian side of the Punjab. Pointing to his swimming pool Jagjit says: "Over there we lived under a banyan tree for the first three years working the *20 acres of land granted to us* by the Indian Government. In the first 15 years we did modestly well, built a farmhouse, sent my brother to college and helped to establish the village."

Output

In the mid 1960s however came an American scientist by the name of Dr F. Borlog. With him he brought outstanding new high yielding varieties of wheat which he had developed in Mexico, and the Green Revolution quickly transformed the life of both Jagjit Singh and the Punjab, as the go-ahead Punjab state government pushed electricity, roads and irrigation into almost every village, Ludhiana Agricultural University and bright young farmers all over the state spread the message and the seed of the new grain technology. The result has been that the Punjab has become India's most pros*perous state producing 25 per* cent of the country's wheat on just 1.5 per cent of its land area.

Today India is largely self-sufficient in foodgrains and this is mainly thanks to farmers like Jagjit in the Punjab which *currently contributes around 65* per cent of the government's wheat pool and 45 per cent of its rice pool.

With a number of tractors and 25 full-time labourers (30 more during harvest time) Jagjit says the adoption of new technology has created new jobs on his farm rather than destroyed them. "With three or four crops instead of one, there's that much more work to do. You only have to see *the massive influx of people* from outside the Punjab during the wheat and rice harvest seasons. Even then sometimes we run short of labour. Over there I produced 7 tonnes of rice per hectare from one crop followed by 6.5 tonnes of wheat—you know that's double the average output of the U.S. farmer," says Jagjit.

Some 850 miles due south Shankar Saloba ekes out a meagre subsistence on two hectares of wind-swept hilly land, 15 miles from the fast growing city of Aurangabad in the north of Maharashtra State. In his village Shankar is comparatively well-off, of the 1,000 or so members of the so-called scheduled (backward) castes who lived clustered together on the "wrong" side of the stream in Golatgaon village, more than half have no land at all.

Shankar got his two hectares of land in 1976 in one of the land re-distribution exercises *which so often precedes a* general election in India. The problem is however that there's no irrigation.

For at least four months of the year most of the streams and rivers are bone dry and nothing will grow at all. All is dependent on the monsoon. Shankar sets just one crop of sorghum a year which last year yielded little more than a quarter of a tonne a hectare, half that of the already dismally low all-India average. A few miles away a gentlemen farmer with irrigation produces more than ten times the output.

Nevertheless for Shankar receiving two hectares of land was a godsend. "In the drought years of 1971 to 1973, we nearly starved for lack of work. But now with my own small patch I can produce enough food to feed myself and my family for more than six months and by working on other people's land for the rest of the year I can earn with my wife a total of around Rs 1,500 (less than £89 sterling). This just keeps us going."

Mr Shankar says he has no savings, no ambitions, no *dreams.* His *only* wish is that his land was just a little flatter. The lack of a bed or a table in his hut doesn't seem to worry him a bit.

This tale of two very different farmers is not a representative one. Mr Hara, of course, accounts for just a tiny minority of the 500m or so Indians who owe their living to the land. And unlike 280m or so rural landless, Mr Shankar does at least own two hectares.

R. C.

Weather hits foodgrain targets

INDIAN AGRICULTURE is now back on course, following the drought-stricken outcome of 1979-80 when foodgrain production—the dominant factor *on the agricultural scene* — plunged to a five-year low.

The overall index of agricultural production in the 1981-82 crop year is expected to increase by around 3 per cent, compared to the 2.4 per cent yearly average for the past decade.

This year's increase is well down on last year's 18 per cent growth, which was unusually high because it followed the drought hit crop year of 1979-1980.

Overall agricultural production, however, is not expected to be much higher than output during 1978-79.

The good news is that 1981-82 sugar and oilseeds production both seem set to achieve all-time records after several poor years. The bad news is that it now looks as if last minute unseasonable weather could deprive India of its 134m tonne foodgrain target.

● **Foodgrains:** Unusually cold and wet weather just before and during the spring harvest in the northern wheat belt may push output down below last year's record of 36.4m tonnes.

However, a record 54m tonne rice crop and a 43m tonne coarse grain output could see total foodgrain production edge slightly above record foodgrain production of 131.9m tonnes, achieved in 1978-79. The Government's 134m tonne target, however, no longer *seems within reach.*

Oilseeds: Output of the country's eleven major oilseeds is set to hit an all-time high of around 15m tonnes in 1981-82, up around 15 per cent on last year's estimated 13m *tonnes.* This *should* boost domestic edible oil production by around 600,000 tonnes, up around 20 per cent on last year's production of 3m tonnes.

With edible oil imports constituting a major drain on the country's foreign exchange reserves this is expected to help the Government reduce imports to the lowest level for almost half a decade. Imports for 1981-1982 are expected to be around 1m tonnes down 23 per cent.

● **Sugarcane:** Higher domestic cane prices stimulated a sizeable increase in the area planted, and cane production this year is expected to be at least 20 per cent up on last year's harvest of 151m tonnes. This should show through in record sugar production of around 7m tonnes, up around 36 per cent on last year's output of 5.15m tonnes. Exports of milled sugar in 1981-82 are therefore forecast at more than 500,000 tonnes compared to a mere 60,000 tonnes last year.

Sugarcane has traditionally accounted for around 6 per cent of the value of India's total agricultural output, covering under 2 per cent of the cul*tivated area. Over 80 per cent* of the sugarcane crop is now under some form of irrigation.

● **Cotton:** The textile strike in Bombay, which has closed down 40 per cent of India's production since January, is not only having a crippling effect on textile exports but has also pushed down domestic demand and prices for cotton.

Cotton production for 1981-82 is expected to be up slightly on last year's 7.85m bales (1.3m tonnes), but if the strike continues, domestic mill consumption of cotton for 1981-82 August-July could be down by 2m bales, or more.

In terms of gross value, cotton has traditionally been India's fourth most important agricultural crop after foodgrains, oilseeds, and sugarcane. It accounts for around 5 per cent of the total cultivated area and just under 10 per cent of India's irrigated land.

R. C.

PERCENTAGE OF CROP SHARE IN GROSS VALUE OF CROP OUTPUT

	%
Food grains	59
Oil seeds	10
Sugar cane	6
Cotton	4
Others	21

Source: World Bank; figures for 1977-78.

John Elliott, Industrial Editor, looks at the effects of the Government's latest measures to ease industrial controls

Easing of controls could herald new industrial era

THE MAJOR question now being asked throughout Indian industry is what impact the Government's latest liberalisation measures will have on the operation of individual private sector companies.

Beset by a range of bureaucratic, infrastructure, and labour problems, companies have been hoping that the liberalisations would remove some of the impediments to operating in India.

Major companies are now, however, wondering how significant the changes announced progressively over the past two or three years really are. They know that the political mood is changing in their favour but they are not yet ready to believe that civil service bureaucrats are prepared to relax their hold on industrial controls.

Many companies are worried about the tight hold they believe the Government is maintaining on partially foreign-owned and monopoly companies. They are also concerned that the department of electronics is seriously impeding a potential major expansion of the country's electronics industry.

The Government realises that changes are needed if India's growth rate is not to fall away. One senior civil servant estimates that the 8 to 9 per cent industrial growth expected this year would have dropped to 6.5 to 7 per cent if the most recent changes had not been made. The 1981 figure was 9.6 per cent.

Output

Broadly, companies in most industries are being allowed expansions of capacity of 33⅓ per cent. In practice under the Indian industrial licensing system this could enable them to add 100 per cent or more to their output within a year or so. In addition the list of 19 industries in which large and foreign-owned companies are allowed to operate has been extended to 24.

These changes, announced last month, follow relaxation of the Government's import policy and other more detailed, but significant, relaxations of restrictions governing industrial activity.

They will help large private sector companies more than public sector businesses which have benefited in the past couple of years anyway from some relaxations of Government controls over their investment programmes and their freedom to select technical personnel.

The changes will also not directly affect small companies.

India's industrial policy is therefore being slowly swung by the present Government more in favour of the private sector, despite India's traditional belief in socialist industrial planning and expansion of the public sector.

Senior civil servants stress, however, that the main concessions will only apply for the next few years and that the basic industrial licensing system remains intact. In addition, public sector industries are expanding their scope.

Key question

If this view is correct, India's post-independence industrial policies have now reached the point where private sector freedoms are recognised as essential for economic growth and will somehow have to be accommodated alongside a public sector which has a 55 per cent share of manufacturing industry total investment.

But the question remains about the significance of the changes. When they were annouced they were widely welcomed and Mr Pai Panandiker, secretary general of the Federation of Indian Chambers of Commerce and Industry, says the general feeling is that the permitted expansion has been a very good thing.

"Effectively there are no industrial licensing controls now except for those large companies which dominate their sectors," he says.

The main concession is that companies can increase their production by 33⅓ per cent above their best output level in the past five years, which itself can already be 25 per cent above the company's formal licensed capacity under an earlier concession.

In addition, a further 25 per cent expansion is also allowed and an extra 33⅓ per cent will be permitted next year. As a result, output increases approaching 100 per cent or more are possible.

The main official limitation on this is that a company cannot achieve the expansion with a totally new capital investment. It can however install "balancing equipment" to raise the output levels of less productive sections of a process to those of the best—providing the "balancing" does not increase the plant's overall capacity by more than 25 per cent.

All large and medium sized companies are allowed this concession, except those which are "dominant" in their sector and are covered by India's monopoly (MRTP) and foreign-ownership (FERA) laws.

The definition of "dominant" has been relaxed significantly but it will still stop some major companies undertaking expansion schemes.

Some 74 industries, already governed by special regulations, have also been excluded from the concessions. They range from leather goods and match production, which is reserved for small businesses, to milk foods, which are being restricted to boost basic milk consumption, and to bright steel bars where capacity far outstrips demand.

Bureaucratic controls are by no means the only impediments to industrial progress. Power shortages are hitting almost every industrial centre in India.

Bombay is being hit for the first time by sporadic power failures while newer industrial centres like Bangalore and Poona have grown so fast that they have 45 to 50 per cent power shortages at this time of year.

Many companies cover 20 to 40 per cent of this shortage by generating their own electricity, using expensive diesel generating sets. But shutdowns and layoffs are still necessary.

In Bangalore, a centre of public sector engineering and electronic businesses, it is said that rapid industrial growth has not only caused electricity shortages and rougher labour relations: it has also ruined the reputedly mild climate by replacing grass and trees with concrete buildings and tarmacadam roads.

Among individual sectors of industry, electronics and cars are about to go through periods of major change.

A new small saloon, produced by the state-owned Maruti company with Suzuki of Japan, is intended to transform the moribund car market, while the Government is about to launch a new policy to try to instil some confidence and expansion in demoralised computer and other electronic companies.

An ambitious programme to make colour television sets is also under way. At present India has about 50 companies producing black and white sets. Last year they made 500,000.

Next month the Government is expected to license the first 10 or so manufacturers of colour televisions as a first step to ultimately approving perhaps 20 assembly companies and 10 manufacturers of components. At least 15 to 20 companies have so far applied for licences, some based on imported technology, with the proportion of imported components dropping from 80 to 90 per cent or more in the first year to perhaps 10-15 per cent over six years.

In engineering, the machine tool industry is buoyant, catering for about 70 per cent of India's needs. It is exporting to a wide range of countries including parts of Europe and the U.S. where there is a market for older designs still made in India.

The Industry Ministry has estimated that the machine tool business will grow by 18 per cent in real terms between 1980 and 1985.

Overall, the engineering industry, which accounts for a third of the country's industrial production, is in the "*grip of a severe recession*" according to the Association of Indian Engineering Industries.

Capacity

Some companies report they are working 60 per cent below capacity and the association said last month that the credit squeeze has led to a sharp fall in production, lower utilisation of capacity, and increased levels of stocks.

Shortage of finance is worrying the Federation of Chambers of Commerce. It wants the Government, which owns and controls the financial institutions, to relax restraint.

"The lack of finance is a very serious impediment to industrial investment which could go up immediately by 25 to 35 per cent and then double in two years, judging by the number of industrial projects now submitted to financial institutions," says Mr Panandikar.

The Government does not admit that there are serious financing problems but it does acknowledge that a shortage of working capital, plus the electricity shortages and other infrastructure problems, are likely to restrict industrial growth.

Such problems are likely to cut growth in public sector manufacturing industry from its official target this year of 20 to 25 per cent to only 12 to 13 per cent. The private sector may fall by perhaps 6 per cent from 15 per cent to 9 per cent.

These shortfalls need not be regarded as serious if the general policy of liberalisation heralds a new era in which Indian industry will be able to grow sufficiently to establish itself in world markets.

Industrial commodities show an uneven price trend, but agricultural commodities indicate a declining rate of price increase.

Commodity markets weakened

AFTER hectic increases during the previous two years, the Indian commodity markets have generally weakened during 1981-82.

This was mainly due to such factors as increases in domestic income and better management of supply and demand.

According to the economic survey published with the union budget for 1982-83 the increase in the wholesale price index for all commodities (base year 1970-71) on a point-to-point basis was only 3 per cent in 1981-82 (up to last January only) compared with 14 per cent in the corresponding period of 1981 and 19.1 per cent the year before.

The index covers both agricultural and industrial commodities. While industrial commodities show an uneven price trend, agricultural commodities, especially those with substantial weighting in the wholesale price index, have shown declining rates of price increase. These are briefly reviewed below.

The cereals index rose by 8.3 per cent against 11.3 per cent in the previous year. Pulses fell by 4.5 per cent against a rise of 50.2 per cent.

Edible oils rose only 5.4 per cent against 21.7 per cent while the oilseeds price index recorded an increase of 5.8 per cent against one of 25.3 per cent.

The sugar price index recorded the sharpest fall of 20.9 per cent on the prospect of a record output of over 7m tonnes against only 5.15m tonnes in previous year. The domestic market requires 4.5m to 5m tonnes and India must either export or build up a sizeable buffer stock to maintain a reasonable degree of price stability.

As both the prospects are at ... ent uncertain the outlook ... the commodity market ... is bearish.

... oilseeds price index ... fairly 5.8 per cent against ... it is because of a ... increase in output, especially of groundnuts.

The latest crop of all oilseeds, including groundnuts, rapeseed, mustardseed, soyabeans and cottonseed has exceeded 12m tonnes, a record so far. According to trade estimates, these would yield 4.5m tonnes of edible oil against a normal demand of 6m tonnes.

Imports of roughly 5m tonnes (almost the same as in the previous year) would be needed to bridge the gap, but the foreign exchange problem would certainly be a constraint. *But in anticipation of adequate* imports, edible oil prices have continued to weaken.

Price support

The raw jute crop during the 1981-82 jute year (July to June) was again a bumper one or over 8m bales (one bale equals 176 kg) for the third year running.

With a carry-over of nearly 3m bales these equalled supplies much in excess of domestic demand. With the jute mills incurring heavy losses because of a weak overseas offtake their direct purchases were mostly hand-to-mouth so fibre prcies were depressed.

But with price-support purchases by the Jute Corporation of India, totalling more than 1m bales, helped to maintain the market in some shape even though fibre prices often fell below the officially prescribed minima in up country as well as Calcutta markets.

In the second half of the jute year raw jute prices improved over the earlier levels mainly because of the Government's jute goods purchase policy which linked official orders for sacking to mills with definite quantities of fibre purchases. Preliminary estimates of a smaller crop during the current jute year have also helped to tone up the fibre market.

The cotton crop for the current year (August-September) is placed at 8.5m bales against 7.5m bales during the previous year. A drive to increase production over the past 20 years or so has helped India *not only to attain self-sufficiecy* but to export cotton in steadily rising quantities.

Exports during the past year are estimated to be 600,000 bales. But during the current year the country may need to export more to arrest the decline in domestic raw cotton prices because of a lower demand resulting from prolonged strikes in the Bombay mills constituting a substantial proportion of the total cloth manufacturing capacity.

As the third largest producer of tobacco in the world India is also a major exporter of Virginia flue-cured tobacco. Her total output during the past is placed at over 350m kg, of which she exported about 100m kg, mostly of the flue-cured variety.

Tobacco prices, fixed at auctions both for home consumption and exports, were more or less steady. As both domestic and export demand are expected to increase, the plan is to raise output to 425m kg, about 25 per cent of which will be of the exportable varieties.

The rubber market was bullish throughout 1981 the impetus coming from a lower domestic output of about 130,000 tonnes, including some 30,000 of synthetic. India has never been self-sufficient in rubber, although output has been steadily increasing.

Varieties of tree with high production potential are being increasingly imported from Malaysia to strengthen the production drive.

India plans to produce at least 200,000 tonnes by 1984-85, but even then there will be a gap of at least 40,000 tonnes between supply and demand. The country currently imports 40-50,000 tonnes of natural and synthetic rubber a year.

The scope for expanding synthetic rubber output is at present limited because of an inadequate raw materials base. A major exporter of candamom, India is no longer able to face the stiff competition in overseas *markets* and has been losing ground. Out of a total output of more than 4,000 tonnes the country exported last year 2,437 tonnes.

But since the net value of exports has been falling the plan now is to popularise domestic consumption as a cushion against serious export fluctuations in future.

Tea, a major export earner, had a fairly bad year, financially at least. Auction prices throughout 1981 were generally *below production costs.* This has created a serious cash flow problem, which is compounded by a tight credit policy. Exports reached an all-time record of 245m kg, but there was no worthwhile improvement in the unit value of exports.

Clouded

The outlook for the current year's crop prospects remains clouded by unfavourable weather in both the north and the south and some shortage is predicted. According to trade estimates the crop may at best reach last year's level of 550 kg, which was down by 25m kg on the 1979 crop.

Although India is not a major producer of coffee, she exported a record 86,045 tonnes out of 145,000 tonnes sheproduced last year. The plan to produce 165,000 tonnes of coffee by 1984-85 remains unaffected.

In the primary metals markets, the prices of copper, zinc and lead, in which India has yet to attain self-sufficiency, and of tin and nickel of which she produces nothing, increased during the year at a lower rate than in the previous year—more or less in line with world trends.

If the prices of the commodities under review continue to fall this year inflationary pressures, which are still strong in India, will have been effectively brought under control.

P. C. Mahanti
Calcutta

INDIA—X

INDUSTRY

New Parliamentary report is 'a damning indictment' of the operations by nationalised industries

Public sector lacks sense of direction

THE PUBLIC SECTOR of Indian industry and commerce is very large and, by general consent, is also very inefficient. It covers financial institutions, basic heavy industries, basic resources and other areas of manufacturing in a total of 200 national corporations and a further large number of companies run by individual states.

Originally conceived in the 1950s by the former Prime Minister, Mr Nehru, to work for the "social good" and to keep the private sector in check, the industries have now expanded into so many potentially profitable ancillary areas that they lack a general sense of direction.

The Ministry of Finance's Bureau of Public Enterprises has failed to produce clear policy guidelines although it does publish an impressive annual survey of all the industries, Together the industries employ a total of 25m people—2m in manufacturing which had total capital investment of £12bn (Rs 21,126 crores) last year.

Capacity utilisation is poor (more than a quarter of the industries were operating less than 50 per cent below capacity in 1980-81). But profitability of the central Government-owned industries has improved, largely thanks to a relaxation of price controls that has enabled key industries such as steel, coal and oil to help turn a £107m (Rs 182 crores) net loss in 1980-81 for the main 169 industries (excluding banking and insurance) into £237m (Rs 403 crores) provisional net profit for 1981-82.

Major loss-makers include some fertiliser plants and some old heavy engineering "sick" industries taken over by the Government in the 1970s.

A damning indictment of the operation and monitoring of the industries is contained in a report published earlier this month by the Indian Parliament's committee on public undertakings. Echoing sentiments often heard in other countries, especially the UK, the committee said there was an "urgent need to improve the management and ensure that the control systems—internal and external—work well."

The report called for the industries to be given clearer overall objectives and obligations on economic, financial and social matters. Clearer financial and other targets were needed to enable performance to be assessed. The country's five-year economic plans and subsidiary targets did not give enough guidance.

The committee also looked enviously at Britain's system of consultative consumer councils for the industries and recommended that similar organisations should be set up in India.

Finally, *ministers should* interfere less in management matters. Senior executives and chairmen should be paid more and have more secure contracts of employment.

Delays

Against the background of the industries' general shortfalls in production, persistent losses and increase in capital expenditure, the committee criticised project management. It said that of 49 major projects examined, each costing over about £10m between 1974 and 1979, eight were delayed for more than five years. In six cases cost escalation exceeded 200 per cent.

The Planning Commission—one of five or six agencies dealing with investment and project approvals—admitted to the committee that there were "gaps in terms of planning and implementation."

These were caused by a lack of information, poor construction performance, inadequate infrastructure (particularly power), management deficiencies; and inadequate attention to planning.

Part of the problem is that the industries have an employment-creation role which often blunts any interest in increasing efficiency. Ministerial interference in management issues (often to find a friend or relation a job or to influence the siting of a factory) also blunts managerial enthusiasm and confidence.

"Overall, the Government keeps in control and the chairmen show abject servility," says Mr Waris Kidwai, the secretary of the Standing Conference of Public Enterprises, which represents the industries. "But it is the managers themselves who are to be blamed entirely for their servility and subservience. They are exercising their own self-interest and usually do not take the authority themselves."

There are many complaints about senior executives, particularly chairmen and executive directors being grossly underpaid. Some say that they could earn two or three times as much in the private sector but insist (particularly if they work in high technology industries) that their job satisfaction is greater because they are responsible for far greater innovation and technological advance than would be possible in the private sector.

There is also some discernible pride in India about working in the public sector, although this is countered by the existence of dishonesty and corruption which, say the critics, public servants need to indulge in because they are so badly paid.

A recent official survey showed that the total remuneration (including basic salaries and all extras) of the most senior executives in the private sector pre-tax was about £13,000 a year (Rs223,000), compared with £5,000 (Rs84,000) in the public sector (including banks). Central Government was lower still at £4,000 (Rs67,000).

There have also been problems about finding suitable candidates for top jobs and some resentment about recent political appointments, particularly to non-executive chairmanship posts which have no clear legal responsibilities but can wield considerable power.

In the 1960s and 1970s there was a 200-strong cadre of senior executives, called the Indian Management Pool, which were supposed to fill top management positions. These people were not easily accepted in the industries and the idea was abandoned. But it still has some support both nationally and elsewhere — Karnataka state is considering setting up a cadre of senior people to run its state-owned industries.

The question now is whether the relative importance and role of publicly-owned industries will change at a time when the Government's relaxed industrial policies are favouring rapid private sector expansion. For the time being, India is so short of basic goods that the public sector will not feel challenged.

Nevertheless, for the first time since India became independent, the public sector will have to live alongside a politically - favoured private sector. That could cause some changes.

John Elliott

HOW GOVERNMENT MOVES HAVE HELPED BAJAJ AUTO

Benefits of easier controls

BAJAJ AUTO of Poona is one company which appears to have gained already from the relaxation of industrial controls promised by the Government.

A highly successful and profitable manufacturer of motor scooters and three-wheel vehicles called "autorikshas" it his been given basic permission to boost its scooter output from 200,000 vehicles to 300,000 a year.

That permission was gained in less than five months compared with delays of two to three years when it put forward earlier expansion plans.

"The attitude of the Government has changed considerably and it has become more pragmatic," says Mr Jayant H. Shah, the Bajaj executive director. "The policy is now to let major industries expand in a general way."

Bajaj Auto was founded in 1960 by Mr Kamalnayan Bajaj to build Vespa-designed scooters, and the three-wheelers, under licence from Piaggio of Italy. The company is now run by his son, Mr Rahul Bajaj.

With 7,000 employees and sales of £64m (Rs 1.096bn) in 1980-81, it made pre-tax profits of £9.2m (Rs 156m). It is part of a broader Bajaj group which has 22,500 employees and is the 14th largest Indian industrial house in terms of sales.

Big orders

But for the past 15 years Bajaj Auto's expansion has been curtailed by the Government's industrial licensing system because it comes under the country's monopolies and restrictive trade practices legislation, having assets of over £11.7m (Rs 200m). As a result, it has a scooter order book stretching 10 to 12 years ahead at present production rates.

When it launched a 50 cc kick-start moped recently, the company booked just over 1m orders in 15 days. At present, it is producing 30,000 of these bikes a year and plans to expand to 100,000—still too little to satisfy the potential customers quickly.

"We don't have a sales department—we have an allocations department. We have never needed to learn how to sell our products after our first year," says Mr Shah.

These high order books graphically illustrate the vast unsatisfied demand in India for some form of cheap personal motorised travel—the moped costs £380 (Rs 6,500) and the scooter £480 (Rs 8,150), compared with £4,235 (Rs 72,000) for old Fiat and Morris Oxford-based models which are the only generally available cars.

In 1960, Bajaj Auto started making 12,000 scooters a year and has gradually expanded this to the present 200,000 at its factory in Pune. (Next door is a company called Bajaj Tempo which broke away in the 1960s and now produces light vans.)

Its next expansion to 300,000, which has to clear a few final approvals, will take place at a new factory. This must, by Government decree, be located in a poor rural area—dubbed a "centrally noted backward area"—200 miles from Poona.

To begin with, the scooter was imported in CKD form from Italy but by 1970-71, when the Vespa design licence ran out, the production was entirely Indian. Now the company claims it can compete with Vespa's own scooters in export markets although it has faced some legal battles in other countries.

Some 15 per cent of its production goes in exports, despite the long order books at home, to more than 15 countries such as Indonesia (its biggest market), Bangladesh, Taiwan, the Middle East, Africa, Australia, the U.S. and Germany. And it hopes to tackle Vespa on its home ground in Italy as well.

On paper, Bajaj makes a 10 per cent loss overall on these exports, mainly because they involve low-volume production runs. But the benefits outweigh the losses, especially when tax allowances are taken into account.

Like many Indian companies, Bajaj exports partly to fall in line with Government policy. In return, companies are allowed more imports of key plant and materials (such as steel) and will also be dealt with more kindly by bureaucrats on issues such as industrial licensing.

But Bajaj is also setting up export bases which, says Mr Shah, it hopes to exploit more intensively and commercially in future years.

"We also want to test our quality and designs against international standards," he says. "Otherwise, with a 10 year waiting list, we could complacently slip on standards."

The three-wheeler door-less autoriksha was developed in 1960 from Piaggio's three-wheeler chassis into a mini-taxi. It is now seen in most Indian cities where it infuriates other drivers, nipping in and out of traffic jams and adding to the confusion and noise, while providing cheaper, if more precarious, travel than conventional taxis.

Pick-up vans, delivery vans and tractor-trailer versions are also produced. Around 25,000 are made year. 5 per cent of which are exported. At present, the engine is in the middle of the chassis but a rear-engined version is being developed.

Bajaj is also developing a more sophisticated three-wheeler with doors, but has delayed production till 1984-85 after producing some prototypes of a first design that need improvement.

The intention is to sell this vehicle for about £1,290 (Rs 22,000) *compared* with £1,000 (Rs 17,200) for the autoriksha. But Bajaj has made a definite decision not to tackle the four-wheel car market.

Even a successful company like Bajaj cannot escape India's crippling labour relations.

In a long-running battle over management attempts to link wage rises to improved productivity, it had strikes lasting six weeks in 1978, 19 weeks in 1979, and two months last year. In 1979, violence led to windows being broken in Mr Bajaj's office, acid drums being spilt, the reception area being wrecked, and police being attacked.

The company has also been hit by suppliers' strikes which have cut its production from 60,000 scooters to 55,000 in the past five months. But Mr Shah insists the labour relations are "generally good" and is moderately happy with his improved productivity.

So, in its 22-year life, Bajaj has established itself as India's major scooter and three-wheeler manufacturer. It is also the second largest in the world after Vespa. But it has not yet been able to generate enough output to establish itself as a major manufacturer in world markets.

J. E.

Bajaj "autorikshas" on the streets of Pune in Maharashtra.

POPULATION AND LABOUR FORCE PROJECTIONS

(Figures in millions)

	1980	1985	1990	1996
Population	659.4	722.4	786.1	869.0
Male	341.2	373.3	405.9	450.7
Female	318.2	349.1	380.2	418.3
Rural	515.6	556.7	596.7	648.3
Urban	143.8	165.7	189.4	220.7
Age structure of population (%)				
0-4	14.1	12.9	12.0	11.2
5-14	25.6	24.3	22.8	21.3
15-59	54.9	56.9	58.9	60.6
60 and above	5.5	5.8	6.3	6.9
Labour force	268.1	302.3	338.9	376.5*
Male	191.3	215.9	242.4	269.9*
Female	76.7	86.4	96.4	106.6*
Rural	215.9	240.6	266.1	291.5*
Urban	52.1	61.7	72.8	85.0*
Age distribution of labour force				
5-14	16.6	17.2	17.4	17.5*
15-59	237.0	268.2	301.7	335.8*
60 and above	14.5	16.9	19.7	23.1*

These projections are taken from the Sixth Five-Year Plan, 1980-85

*Relates to 1995

FOCUS ON HMT

Poised for further expansion

"THE BUREAU of Public Enterprises once told me the colour to paint the company cars. I refused and got on with running the business," says Mr T. V. Mansukhani, managing director of HMT, the profitable public sector engineering company of Bangalore.

Mr Mansukhani started with the company, previously *called Hindustan Machine* Tool, when it was first set up in 1953 by the Government to boost India's machine *tool production*.

Now aged 48, he became managing director of HMT last August and is an independently - minded top executive and is generally recognised as one of the most successful in public industries.

"Frustrations are an attitude of mind," he says. "All industries have constraints. My policy is that I don't mind being in the dock for acts of commission, but I do mind it for acts of ommission.

"I know I'd get twice as much salary in the private sector, but here I have more freedom. Private entrepreneurs are more constrained. I have more freedom to develop a new product than, say, Kirloskars (a large private sector engineering company).

"With Government finance behind me, I can take a longer term view and need not worry about immediate returns."

Between 1978 and 1981, Mr Mansukhani was seconded to head Bharat Heavy Plates and Vessels, a public sector heavy process plant concern that was losing money. He is proud of the freedom he had to turn it round by diversifying and establishing joint ventures.

The diversification policies of HMT have caused some controversy. After developing its initial business till it was producing 2,000 machine tools a year, it was instructed in 1961 to produce 300,000 mechanical watches a year by Mr Nehru, then the Prime Minister, who believed Indians needed to become more time-conscious.

But the recession of the mid-1960s led the company into more diversifications, which it chose itself, in order to insure against the cyclical machine tool industry. The watch business has been expanded to 2m units a year and, despite objections from some quarters, it started last year producing quartz analogue watches and will soon be making quartz digital watches.

Its other products include lighting fittings, agricultural tractors, ball bearings, and dairy machinery. Now the company says it is "poised for a big leap forward" by doubling its production to over Rs 500 crores (approximately £290m) by 1985.

Machine tool output is planned to rise by 76 per cent from just under Rs 100 crores (£58m) to Rs 170 crores (£100m) in 1985 and watch production is budgeted to rise by 70 per cent to Rs 160 crores (£94m).

Provisional figures for 1981-82 show that HMT, which has 27,000 employees, achieved a net profit of Rs 35 crores (£20m) compared with Rs 20 crores (£11.7m) in 1980-81. Sales rose 40 per cent and return on capital employed increased from per cent to 27 per cent.

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Government sets ambitious targets for growth

Challenge for small businesses

AMBITIOUS TARGETS have been set by the Government for the growth of small businesses. This is despite disappointing results three years ago when the Janata administration placed too much emphasis on them in its industrial policy and despite a continuing problem of business failures.

The present Government wants production in what India calls its small scale sector to rise by about 75 per cent during the five years covered by the current economic plan from £11.2bn (Rs9060 crores) in 1979-80 to £19.3bn (Rs32873 crores) in 1984-85. The growth in the preceding five years averaged 9.5 per cent annually.

Employment is targetted to rise from 6.7m people to 8.9m and exports by about 80 per cent on top of a 1979-80 figure of £617m (Rs1050 crores).

These figures do not tell the whole story because they are based only on information from 400,000 businesses which register with the Government's Small Industries Development Organisation.

The organisation estimates that about half the small businesses in India do not register which means that there may be approaching 1m small businesses in the country.

India talks in terms of small scale industries, rather than individual small businesses, which cover manufacturing and *repair industries* with businesses having investments in plant and machinery of up to about £120,000 (Rs 20 lakhs).

There is a subsidiary definition of ancillary industries covering sub-contractors and components suppliers, with up to £140,000 (Rs 25 lakhs) of investment.

These groups include village and craft industries, but there is also a smaller size called tiny units which cover smaller village crafts with plant and machinery assets not exceeding about £12,000 (Rs 2 lakhs).

The promotion of small businesses has been regarded as important in India for more than 30 years because they create employment more cheaply than larger companies and because they can be more easily used to industrialise rural areas.

Large companies have policies of using them as much as possible and the Government *actively tries to develop them* as part of an integrated industrial economy. In this way they are widely used both as suppliers of components and as assemblers of sometimes fairly technical products.

In electronics, the small scale sector grew by 20 per cent in 1980-81. It produced more than 75 per cent of the black and white television sets, 55 per cent of the tape recorders, and 40 per cent of the control instruments and medical electronic equipment made in the year.

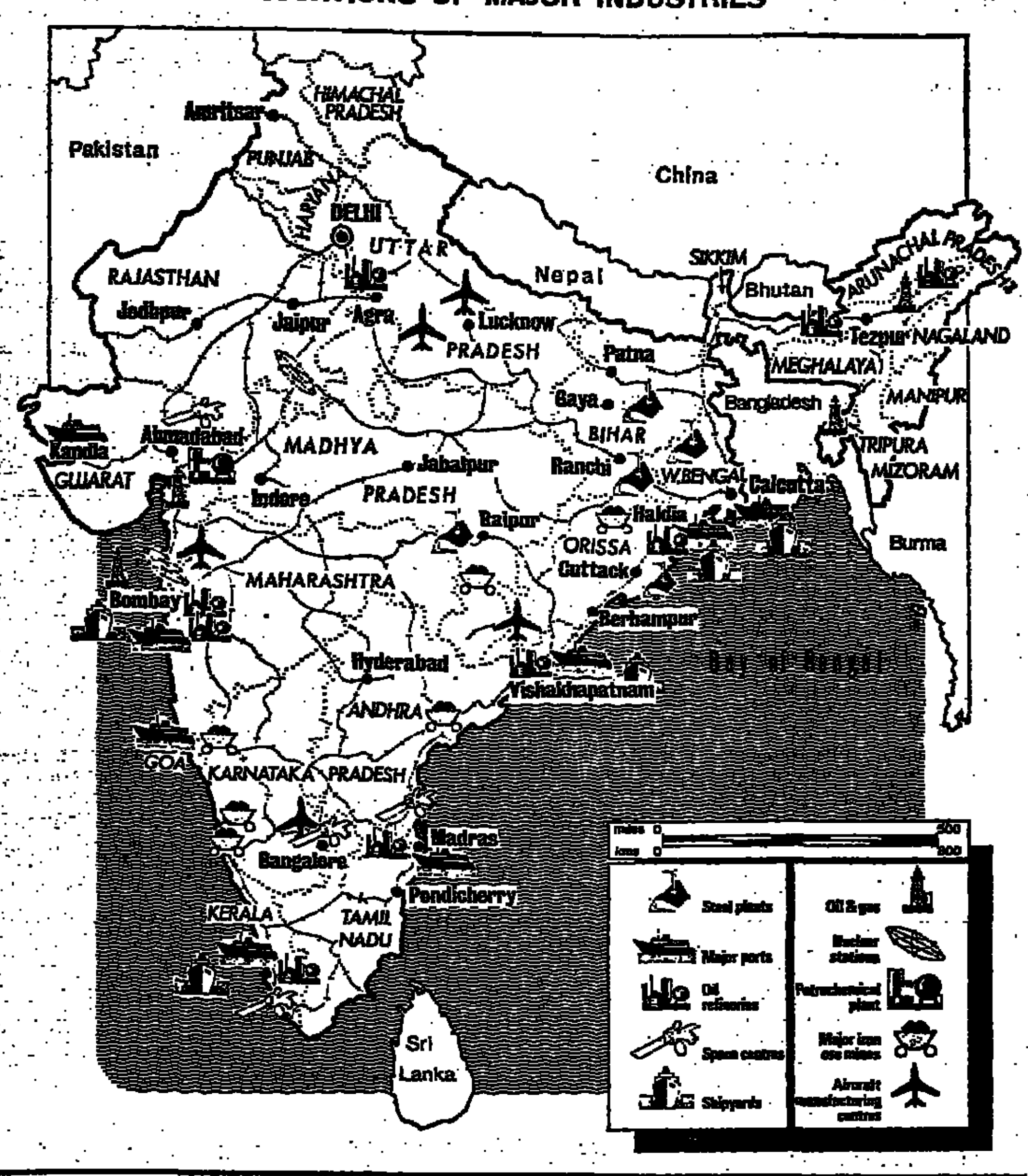
At the other end of the scale small businesses make handloom materials, handicrafts, helped by the Small Industries and other traditional goods.

The small businesses are Development Organisation, which, along with other agencies and the state-owned financial institutions, runs various financial and managerial schemes.

Both the Government and the financial institutions are trying to find ways to help what India calls its "sick" businesses. The Reserve Bank estimated that at the end of December 1979 about 20,800 small scale units were "sick" because of mis-management, marketing problems or, most important of all, external reasons such as shortages of power and raw materials, or high rates of interest on loans.

J. E.

LOCATIONS OF MAJOR INDUSTRIES



INDIA'S TOP 10 COMPANIES IN THE PRIVATE SECTOR

	Total assets (Rs m)		Total assets (Rs m)
1 Tata Iron and Steel	4,004.5	6 Hindustan Lever	1,688.2
2 Tata Engineering and Locomotive	4,004.3	7 Great Eastern Shipping	1,619.6
3 Scindia Steam Navigation	2,232.7	8 Delhi Cloth and General Mills	1,588.1
4 Associated Cement	2,017.0	9 Reliance Textile Industries	1,533.3
5 Gwalior Rayon Manufacturing	1,720.6	10 Calcutta Electric Supply	1,441.3

Source: Business Standard, figures for 1980.

Considerable potential for electronics

WHEN THE Reserve Bank of India decided to buy a new computer it chose a U.S. designed Burroughs machine, with ICL of Britain and Sperry Univac (U.S.) as second and third choices. But it was forced by the Government to buy American equipment from Honeywell.

That purchase decision was made unilaterally by the Department of Electronics which is generally blamed by industrialists for regulating developments and restricting growth in India's electronics industry, instead of encouraging advances.

Now the department may be forced to change its stance under a new policy which is being prepared by a team of five top civil servants. The policy is likely to lay down a clear cut strategy which encourages growth and curbs the Department's interference.

At the same time, a rapid growth in the international activities of Indian software houses, which write computer programmes, has helped to underline the considerable potential for electronics in the country.

"Get rid of the bureaucracy and India could become a force and a threat to be reckoned with internationally in electronics applications," says a senior European computer executive.

The problem stems from India's 30-year-old determination to be self-sufficient, economically and industrially. The import barriers which in the past have enabled traditional industries to be developed, have had the reverse effect in the electronics industry. They have blocked the easy and continuous flow of technology, finance and products which are essential in such a rapidly developing business.

While political attention has been focused on high technology industries of special national importance like defence, space and nuclear power—and, most recently, telecommunications — other parts of electronics have become India's most underdeveloped industry. The country has not even started in the race to supply electronics more commercially, while neighbouring countries like Singapore, Hong Kong, Taiwan and South Korea have won valuable prizes.

There is, of course, no massive home market in *India* for sophisticated consumer and entertainment electronic products. The annual report of the Electronics Department for 1981 shows that as much as 76 per cent of the £144m (Rs 2,460m) total production of consumer electronics during the year was unsophisticated radios and black and white televisions.

The total production of electronics equipment and components during the year was £504m (Rs 8,560m) including, in addition to consumer goods, £111m (Rs 1,885m) for computer control and instrumentation; £102m (Rs 1,730m) for electronic components; £90m (Rs 1,540m) for communications and broadcasting equipment; £40m (Rs 690m) for aerospace and defence electronic equipment; and a tiny output of £15m (Rs 255m) from SEEPZ, the customs-free electronics zone set up in Bombay in 1974 to boost the industry.

These are not figures on which major international industries are built, but they could be much larger because there is a home demand that is not being met in the field of communications and industrial electronics.

For example commerce and industry—ranging from power generation to the running of the railways or the functioning of the banks — needs modernisation.

Frustration

"No one in India seems interested in the notion of opportunity costs, that is the cost of not generating power efficiently, or not running railways on time, or letting other parts of the infrastructure foul up," says one frustrated computer executive.

Another side to the problem is that Indian companies spend little in research and development on *their own* products, having traditionally relied heavily on foreign licences.

The Industry Ministry estimates that overall as little as 0.2 to 0.4 per cent of company turnover is spent on research—and that is dominated by a few major private sector businesses like the Tata group and Hindustan Lever, plus high technology public sector companies.

India's foreign ownership rules, combined with tight import restrictions, high import costs (duties range up to well over 100 per cent), and a sluggish home market, have scared *multi-national* electronics companies away. The consequential lack of activity in the country has compounded the problem. The Department of Electronics' refusal to let customers choose what to buy (illustrated by the Reserve Bank story) has further slowed down flows of orders in an industry where technology often has a short shelf life.

"Our policy of self-reliance, coupled with the prohibitively high—for us—price of technology licences, has meant we have continually had to invent the wheel ourselves," says a senior computer executive. "An open-door policy on licence and investors would change things."

India's international image was also hit by IBM leaving the country in 1977-78 after rows over foreign ownership regulations, amid allegations that it had been dumping old technology on India and charging excessively high prices.

There are, of course, Government-owned electronics companies such as Bharat Electronics of Bangalore, which is a profitable 30-year-old business with a £70m turnover, 80 per cent of which is radar and wireless and other equipment for the Government.

Then there are newer corporations being set up by individual states. Maharashtra State for example has created Meltron in Bombay which, experimenting in joint public-private financing ventures, makes semi conductors, private telephone exchanges, and tape recorders. It has applied for a Government licence to make 75,000 Thorn-EMI colour television sets in the next five years.

Private sector companies tend to be small. ICIM of Poona, which is 40 per cent owned by ICL of the UK, has only 460 manufacturing employees and has turned out 100 of ICL's 2904 systems in the past five years. Yet, with Electronic Corporation of India, it is said by the Electronics Department to be the major producer of mini- and midi-computer systems in the country. (It will shortly be producing a version of ICL's System 25 mini-computer.)

Another partially foreign-*owned company*, Tata Burroughs, manufacturers a dot-matrix printer in SEEPZ which Burroughs used to make in Scotland and, briefly, in Brazil. Costs are said to be a third of those in Scotland but the product, made for export only, is running at only half its 25,000-unit annual capacity and its future is now in doubt.

The view is growing that India *should* not try to go into the business of computer peripherals mass production, nor should it attempt to move into large-scale production and packaging of micro chips which require massive financial investment and easy trading arrangements. But it should be moving into the applications market which could fit in the Government's wish to give preference to small and medium sized businesses.

Its software writing is expanding rapidly. Tata Burroughs of Bombay, for example, has been expanding its software business at 80 per cent a year since it was set up in 1976. In 1981, its turnover was £2.6m (Rs 45m).

Systime, a subsidiary of a UK computer business located in SEEPZ, finds it can undercut UK software prices by some 30 *per cent when cheaper Indian* salaries, but increased communication costs, are both taken into account.

While a country like Britain is short of some 20,000 to 30,000 computer experts, India has a surplus of well-educated, mathematically astute graduates. "You can advertise for 10 people and take your pick from 1,000 graduates, 700 of whom are engineers," says Mr Ramesh K. Verma, head of Systime in India.

All experts agree that Indians are specially suited to *software work* although the lack of sophisticated hardware in India means that most employees are only capable of writing programmes, not designing packages. The ambition of some companies—there are a total of 20 in the field at present—is to develop more *local expertise.*

John Elliott

CAR MARKET

Period of major change

INDIA'S DOMESTIC car market is about to enter its first period of major change for approaching 30 years. No totally new models have been introduced since the 1950s, when the British-designed Morris Oxford *and the Italian Fiat 1100 were* launched, along with versions of Britain's Triumph Herald.

Now Suzuki of Japan is linking up with Maruti Udyog, the state-owned car company founded in the mid-1970s by Mr Sanjay Gandhi, the late son of the Prime Minister of India, to produce an 800 cc four-door car.

Subject to final negotiations, a formal agreement-signing ceremony is scheduled for the end of next month. Maruti then hopes to start producing Suzuki cars with pick-up truck and mini-van derivatives by the end of next year, building up rapidly to a production rate of 100,000 vehicles a year to be followed later by 150,000.

Although small by international standards, this rate of production will transform the private car market in India which has become moribund in a vicious circle. The old designs have demotivated potential customers and have there*fore restricted demand and* output, so making it uneconomic for new designs to be developed.

Successive plans, through the 1960s and *1970s*, to produce a small "people's car" foundered through lack of interest and funds.

Rapidly rising oil prices in the *1970s* gave the quest for a new car some urgency, but it was not until 1980-81 that the Government and the newly-nationalised Maruti seriously started looking for the foreign partner.

Maruti and the Indian Government turned to Japan last autumn when they could not find the car they wanted in *Europe. Their aim was an en*gine of under 1,000 cc, a four-seater family car with four wheels and four doors.

They wanted good fuel economy, which meant they rejected older designs that might have been available cheaply (the BL Ital, for example). They also wanted one engine and a basic product to be easily adaptable into a pick-up truck, mini-van or micro bus.

Criticism

There is some doubt in India about whether the country could absorb the full 100,000 to 150,000 production, in addition to the 50,000 or so other cars that will be produced. This criticism appears to have been met by Maruti, adapting its plans last year, so that 60 per cent of the production will be the small commercial vehicles with only 40 per cent being cars.

The *Japanese* easily *under*cut the Europeans on price. Suzuki won by being the lowest and also by being willing to take the largest equity stake—25 per cent with an option of up to 40 per cent.

The project is likely to cost in excess of £117m (Rs 2bn) and is to be accommodated in *an 80,000 sq m factory already* built for Maruti on a 3,000-acre site outside Delhi.

To begin with, 65 to 75 per cent of the vehicle will be imported from Japan, reducing to 10 per cent in five years, *according to Maruti's plans.*

Other parts of the motor industry are also feeling the pressure of Japan's invasion of world markets. Suzuki may soon start making inroads into the Indian moped market and Toyota two to 3.5 ton commercial vehicles are to be made in the Indian private sector by DCM (Delhi Cloth and General Mills) under a pact signed last month. Nissan is also negotiating with Allwyn Metal Works, publicly owned by the state of Andhra Pradesh, for the production of 1.5 to 3 tonnes vehicles.

Meanwhile, there are three other private sector developments in the domestic car business. First, a small company called Sunrise Auto Industries, which has produced fibreglass three-wheelers in Bangalore for the past seven years, is about to launch a new model under licence from Reliant Motors of the UK.

This is a four-door fibreglass, conventional-looking modern saloon called the Dolphin. It is based on the Reliant Kitten, launched on the UK car market in the mid-1970s. Production starts this month and the company says it already has orders booked for the 6,000 or so cars it can produce till June 1984.

Premier Automobiles of Bombay are spending £58m (Rs1bn) modernising its main factory and developing another plant to switch gradually from its 28-year-old Fiat 1100 design to the Spanish Seat 124 (based on the Fiat 124).

Hindustan Motors of Calcutta is carrying out a similar exercise, buying a redundant design from Vauxhall Motors in the UK to update its Ambassador, which is based on the Morris Oxford.

But neither Premier nor Hindustan will have totally new cars, merely facelifts, possibly with some engine modifications, so they will not have the fuel economies and other modern styles of the Suzuki.

J. E.

Trade union activity in India is governed by a combination of opportunism, inter-union rivalry and genuine, widespread discontent. The number of man days lost, through strikes and lock-outs, makes alarming reading.

'Crisis' in industrial relations

MR S. A. DANGE and Dr Data Samant are two very different men with one thing in common. The former is frail, articulate and a life-long Communist, the only Indian to have been awarded the Order of Lenin.

He sits *in* his book-lined flat in the heart of Bombay's textile district, surrounded by pictures of Marx and Lenin, coming to terms with the decline of his influence as the founding father of radical trade unionism in India.

His union, the pro-Moscow All-India Trade Union Congress (AITUC) seems demoralised and confused, like the Communist movement itself—in Mr Dange's own words, "at a standstill."

Dr Samant, on the other hand, is the rising star on the horizon of India's industrial relations scene.

Large, brooding with no discernible intellectual interest in politics, he is widely seen as posing the biggest threat in years to the state of Maharashtra and its capital Bombay, between them the power-house of India's industry and commerce.

What the two men have in common is that, a decade apart, they have led the two longest strikes in India's textile industry, the country's biggest export earner and largest employer outside the Government sector.

The Dange-led strike, just over ten years ago lasted three *months.*

Dr Samant's passed that mark at the end of last month and now looks set to become the most damaging strike ever in the key industrial sector, adding yet another notch to his gun.

It has also shaken India's *biggest* trade union—the Indian National Trade Union Congress (INTUC)—to the core, posing a fundamental challenge to its authority.

The INTUC was (and still is, officially) the recognised representative of Bombay's 250,000 textile workers.

Demoralised and disaffected, they responded, almost over*night, to a strike call from Dr* Samant in January, ignoring all appeals from the INTUC to return to the fold.

What makes Dr Samant's challenge even more potent is that the INTUC is closely tied to and supports the ruling Congress (I) party of Prime Minister, *Indira Gandhi.*

All of India's ten central trade union organisations are, to a greater or lesser degree, committed to political parties.

Mr Dange's AITUC is effectively the industrial arm of the pro-Moscow Communist Party of India (CPI).

The centre of Indian Trade Unions (CITU) is its counterpart with the Communist Party of India Marxist (CPI-M), which broke away following the Sino-Soviet split in the early 60s and has since emerged as the dominant force on the extreme left of the Indian political spectrum.

Most other major political parties have their tame unions. They, in turn, have over 20,000 plant unions affiliated to them.

A small number of companies, among them foreign-owned ones, have managed to encourage genuinely independent plant unions—there are no craft unions in India—but even these are often susceptible to blandishment of "*political* unions.

Weapon

In the past few years, especially this complicated and frequently overlapping network of trade unions, has found itself being increasingly used as a weapon by its political affiliates or, as in the case of Dr Samant, as a convenience. The most spectacular example was Dr George Fernadez, formerly Minister of Industry in the Janata Government between 1977-80 who led the nationwide railway strike in 1974.

The decline of Mr Dange and the rise of Dr Samant, which may or may not prove temporary, are vivid illustrations of the ebbs and flows of Indian trade unionism. These are governed not only by economic and political considerations but also—and this is increasingly so —by regional and communal influences which followed the gradual disintegration of the nationalist consensus — behind the Congress Party since independence in 1947.

The rise of Dr Samant has prompted warnings in the words of one captain of industry, that India is caught in "a crisis of deteriorating industrial relations."

Although there has been an improvement since 1980 the figures make alarming reading. The number of man-days lost in 1981, due to strikes or lockouts, was nearly 26m, against 21.93m the previous year and 43.85m in 1979.

In Maharashtra alone, 67 industrial units closed in 1981, the state accounted for over 10m man-days lost that year or nearly 40 per cent of the country's total.

This year's figures will be swollen by the textile strike. As many as 15 mills may have to close.

Industrialists, the Government and moderate trade unionists also point to the violence which seems to accompany strikes. This has been a traditional feature of the labour scene, but now prolonged strikes are *frequently accompanied* by rioting or intimidation.

The authorities, in turn, are as firm as they dare be in dealing with this violence. Very occasionally there are brutalities as in the case of a small sit-in at a factory in Uttar Pradesh, where between two and 35 workers were killed after police intervened to break the protest depending whose version is correct.

This kind of over-reaction appears to be the exception rather than the rule.

The Government has wide-ranging powers to deal with labour unrest firstly under the *National Security Act and,* secondly, under the Essential Services Maintenance Act which allows it to declare any industry an "essential one" and prohibiting strikes.

In Bombay, the state's Industrial Relations Act officially governs the recognition of official unions but, as the Samant case demonstrates, is unenforceable.

While being a vocal and often disruptive force which tends to go in for long strikes of anything from three to 12 months in herculean trials of strength with employers, India's industrial worker is a tiny proportion of the total workforce.

Out of a total population of around 690m the working population is 260m. The total employed on the organised or industrial and commercial sectors of the economy is barely 22m. Of these, 15.6m are in the public sector and around *7m in the private* sector. The unions operate almost exclusively in the islands of affluence.

Disruption

Most disruption is inevitably concentrated in the industrial heartlands of India—Maharashtra, West Bengal and Gujarat. This is partly because of the concentration of industry but also because trade unions are locally run and focus their activities on the interests of their immediate members at plant, or at best, local industry level.

One of the consequences of this is that the industrial worker is now in a new and privileged class when seen against the mass privation of a country where perhaps half the population lives below the poverty line.

The daily wage of an unskilled worker in Bombay may be as high as Rs 55 a day ($6.8) *while his counterpart* in Tamil Nadu may receive one rupee.

As Dr Samant's opportunism demonstrates, trade union activity is governed by a combination of opportunism, inter-union rivalry and genuine and widespread discontent.

There are currently estimated to be anything up to 40m unemployed or underemployed workers in India.

If the population continues to grow at the present rate 10m new jobs may be needed within six years. The budget economic survey claims 600,000 jobs were created last year.

Alain Cass

A relaxation of stringent import and export regulations points to a change of emphasis, says Richard Cowper.

Better climate for foreign investment

AFTER MORE than half a decade of declining (or, at best, stagnating) foreign investment levels, there are now signs that foreign companies with money to spend are taking a fresh look at India.

Though many remain hesitant, a growing number have been encouraged by what they see as New. Delhi's more pragmatic approach to the management of the Indian economy and its less hostile attitude to potential overseas investors.

Over the next few years the prospect is for a slow but steady increase in foreign equity investment, though few expect there to be a dramatic jump. However noble the intentions of senior Government officials, the maze of bureaucratic controls, which have for long dogged domestic and foreign investor alike, will continue to dampen enthusiasm of potential new foreign investors.

In the immediate future, by far the largest increase is likely to come from foreign companies already operating in India.

Most foreign companies with subsidiaries in India are agreed that the last couple of years has seen an encouraging and important shift in the policies of India's economic planners.

As some see it, a fortunate conjunction of economic necessity (sluggish industrial growth and balance of payments problems, largely due to high oil imports) coupled with a growing conviction that the economy has been stifled by too many controls and an essentially inward-looking philosophy has jolted India into taking a series of measures aimed at what is loosely described as "liberalising" the economy.

The decision to borrow sizeable amounts on the world capital market for the first time last year ($1.85bn in 1981-82), the recent move to allow large domestic and foreign companies to expand into new areas of business and a relaxation of the country's stringent import and export regulations are telling examples of the Government's change of emphasis in key policy areas.

In a country, where for several decades centrally planned control and self-sufficiency have been the economic watchwords, the recent shift in policies—however modest—has taken on a special significance for both domestic and foreign investors.

In comparison to its previous distrust of foreign investment, the Indian Government is now taking a more positive approach.

At a well-publicised international seminar in Geneva, earlier this year, Mr Narayan Datt Tiwari, India's Minister for Industry, made what some top Indian civil servants say was an unprecedented call for EEC companies to invest in India.

And on her visit to Britain in March, Mrs Ghandi personally called on British businessmen to do the same.

As D. R. Pendse, a senior economic analyst at Tata Services, puts it: "The hostile Indian attitude to foreign investors at the top has gone."

That is not to say, however, that India is about to embark on a radical shift in its foreign investment policies. There is no prospect of an "open door" to overseas investors.

Key areas

The Foreign Exchange Regulation Act (FERA) of 1973 which forced many existing foreign ventures to reduce their holdings to 40 per cent and soured the investment climate for the rest of the 1970s will not be repealed. And the Minister for Industry has made it clear that the Government still wants to confine foreign investment to key areas of the economy, most notably those which involve high technology or are largely export oriented.

As a recent Government investment profile points out, New Delhi will continue to prefer collaboration agreements which involve the sale of technology rather than equity participation, and with the exception of export processing zones and extremely sophisticated technology the Government will not be keen to allow new investors to take a controlling share in a joint venture—though some exceptions may be made.

In a bid to overcome some of the doubts which have assailed foreign companies, however, the Indian Government may be prepared to take a more pragmatic approach in enforcing Fera rules.

Though many existing ventures have already complied with the Government's demand to reduce equity to 40 per cent, a number of those that have not may be allowed to maintain a controlling share as a result of a more liberal application of the rule which allows high technology companies to hold up to 74 per cent. The cases of Siemens, Union Carbide, Hindustan Lever and GEC are under consideration.

Elsewhere, the Indian Government has made it abundantly clear that it is now prepared to go quite a long way towards making it attractive for certain categories of foreigners to invest in India, most notably non-residents of Indian origin and investors from the Middle East.

Just over a year ago New Delhi opened its investment doors on special terms to Middle East oil-exporting countries, residents of which are allowed to hold up to 40 per cent equity in a joint venture without imparting any transfer of technology at all.

A serious bid is also being made to attract investment funds from the 8m or so non-resident Indians living abroad.

Though remittances from Indians overseas are already a major factor in India's economy (an estimated $5bn in 1981) the Government believes that there is still a large untapped market, particularly among the professional and business classes.

In his first budget speech as Finance Minister, in February, this year, Pranab Mukherjee, announced that non-residents of Indian origin would now be treated on the same footing as Indian nationals in a number of investment areas, and would for the first time be allowed to purchase shares on the Indian Stock Exchange.

Though these two policy changes have yet to produce notable results, one area which has is the opening up to foreign investors of oil and gas exploration and production.

Earlier this year, Chevron of the U.S. became the first foreign company to sign an exploration and production agreement with the Government. And New Delhi is currently reviewing the terms and conditions of the blocks on offer, and is expected to put out a second more attractive round soon as part of its all out drive for energy self-sufficiency.

Another policy change this year that could help to boost investment is the decision taken in March to allow large domestic and foreign companies to move into areas that were hitherto reserved for the public sector and smallscale industry.

Foreign companies are now eligible to produce passenger vehicles and steam turbines, to name but two areas.

Suzuki of Japan, for example, now seems set to take an equity stake in a new joint venture to make a so-called people's car, thus providing Indians with an alternative to the two outdated brands of automobile currently on the market.

Steady increase

These and a number of other measures should result in a steady increase in foreign investment over the next few years, bringing to an end over half a decade of stagnating or declining investment levels.

From 1970 to 1980, for example, new private foreign equity investment in industry approved by the Indian Government was less than $70m—an average of just over $7m a year. Even with a significant percentage increase in annual flows, comparison to many other Third World recipients of foreign investment the amounts are still likely to be small, however.

Even with a more positive attitude at the top, Indian bureaucrats at lower levels may take some time before they can shed their distrust of foreign investors, particularly the multi-national companies, and both the Government and investors themselves seem set to continue to adopt a cautious approach.

The Anglo-French Chamber of Commerce says French companies will continue to concentrate their main efforts on winning export orders and battling for turnkey projects while in a recent speech the U.S. ambassador said he did not foresee a sharp jump in U.S. investment in India, though he admitted the outlook was more favourable than just two years ago.

Amongst British and German companies there is no great excitement but an air of cautious optimism now prevails in strong contrast to negative attitudes which had prevailed until recently.

In the words of Dr Guenter Krueger, the executive director of the Bombay-based Indo-German Chamber of Commerce: "Compared to the stagnating 1970s, we can now expect a slow but steady increase in foreign investment, with the occasional jump for larger projects. The Indian Government's previous aggressive anti-multinational stance has moderated, but the maze of bureaucratic controls is still a powerful disincentive."

U.S. investment in India
(U.S.$m)

Year	Amount	Growth (%)
1975	367	—
1976	363	− 1
1977	337	− 7
1978	328	− 3
1979	341	+ 4
1980	396	+14

Source: U.S. Chamber of Commerce.

Foreign collaborations involving foreign investment
(U.S.$m)

Year	Number	Amount
1970	32	2.6
1971	46	6.3
1972	35	6.8
1973	34	3.1
1974	55	7.3
1975	40	3.5
1976	39	7.6
1977	27	4.4
1978	44	10.2
1979	32	5.1
1980	74	9.7
1981	11	—

NB—Total new private direct investment approved 1970-80 amounts to just under U.S.$70m at current-prices.

Source: Government of India.

Foreign Investment in India*
(at the end of March)

Year	Rupees m	$USm(†)
1970	16,410	1,784
1971	16,800	1,826
1972	17,560	1,909
1973	18,570	2,018
1974	19,430	2,112
1980	20,000	2,174††

*The Indian Government stopped issuing annual investment figures for years after the Foreign Exchange Regulation Act of 1974.

†Exchange rate: 9.2 rupees= $US1.

††The figure for 1980 was given to Parliament by the Finance Minister on June 6, 1980. The rough estimate of Rs 20bn crores at the end of March, 1980, clearly indicates a decline in foreign investment in real terms after 1974. (A crore is 10m). Source: The statistical outline of India.

How to survive a cold climate

WHEN Mr J. B. Gibbons packs his Bombay bags to head back to a somewhat uncertain future in Britain later this year, he will be bringing to an end what even he admits has been a unique century-long Anglo-Indian business relationship.

Founded in 1863 by a British teak baron, the Bombay Burmah Trading Corporation, says Mr Gibbons, was Indian controlled from the start, more than 100 years before the "infamous" foreign exchange regulation act (FERA) sent shivers down the spines of so many foreign-owned companies operating in India.

This, however, did not stop the company's worldly-wise Indian directors from continuing to choose a British managing director to oversee the company's increasingly diverse holdings. Mr Gibbons is the last of that long uninterrupted line of British business gentlemen. When he goes he will be replaced by one of his Indian colleagues.

"I have enormous admiration for the ability and diligence of Indian businessmen. If you can survive and make money in this restrictive climate you must be really very very good," he says.

Mr Gibbons has lived and worked in India happily for well over a decade, but he is under no illusions as to the enormous problems which businesses have to face. He says there are "some signs of a more pragmatic approach coming along" but he expects "government interference at every level to continue to be the most fearsome obstacle" facing businessmen and the economy.

"One is hemmed in with a plethora of restrictive laws on production levels, foreign exchange, wages, imports—you name it. It took us five years just to get the papers ready to start our new electronics factory. The cost to the public is enormous and it stifles innovation and productive enterprise. Our finance director spends about 80 per cent of his time devoted to seeing us through the seemingly ever-growing maze of regulations."

Mr Gibbons maintains that it is much easier for the large companies like the Tatas or the Birlas, which have the resources, to cope with these problems. But for the middle to small-sized operation the extra costs and time involved can often kill off at birth a potential new business venture. "A much too large a proportion of the skills and energy of some of my best employees are devoted to beating the system," he says.

Infuriating

"It would not be quite so infuriating if the regulations were clear, and uniformly enforced, but inevitably it's a matter of interpretation. For example, we pay 31 per cent excise duty on a particular product and a competitor of ours pays just 8 per cent on a similar product. The system is bound to be open to abuse."

Though he admits that clear evidence is not forthcoming, Mr Gibbons believes that in the last five years corruption has grown even more pervasive along with the expansion of the black economy. He points with a mixture of horror and amusement at a recent Supreme Court decision to make bribery tax deductible, and asks what price honesty or economic efficiency when a chief minister can amass a $35m fortune from the creation of cement shortages and get off without any apparent punishment other than the loss of his job.

Even with a new approach to the economy at the top, Mr Gibbons wonders if it will turn out to be in the personal interests of the Indian bureaucracy or the country's politicians to lift the plethora of controls which have done so much to boost their living standards. Unless there is a sharp increase in government wages and a determined effort to use the full might of the courts to stamp out bribery and corruption the problem is likely to remain severe with all the losses in efficiency and innovation that this entails.

"It's fun doing business here. You can even make money. But there is enormous untapped talent and resources which needs to be productively used. Under the present high cost, bureaucratic system, energy and talent are misdirected. The economy is slowed down and it is the Indian public that foots the bill."

R. C.

Stockmarkets find the going easier

IF THE Indian stock markets have been playing an increasingly important role in the economy in recent years as a source of equity and longterm capital it is due to the following fundamental factors:

- Mrs Gandhi's pragmatic economic policies giving greater freedom and initiative to the private corporate.
- The corporate sector's generally good performance, giving attractive rates of dividend which attracts more risk capital in an inflationary economy.
- A growing inability of public financial instiutions to provide funds for the corporate sector's expansion and diversification programmes, due to a shortage of their own resources.

In order to enable the capital market play its role more efficiently the Government (even the Janata government did this) has been taking measures to make equities more attractive to the investor.

Firstly, investment up to Rs 10,000 in the shares of companies was made tax-free. Now the limit has been doubled to Rs 20,000. Interest rates permitted on company debentures have been raised to 13.5 per cent on the convertible variety which also carries substantial appreciation prospects and as high as 15 per cent on non-convertibles.

To help the corporate sector retain more of its earnings, corporation tax surcharge has been cut to 2.5 per cent from 7.5 per cent and generous investment allowances are allowed for expansion and diversification projects, as well as for new companies.

The latest budget of Pranab Mukherjee, the Central Finance Minister, has not given more direct tax relief to the corporate sector nor depreciation allowances at an accelerated rate as the stock markets had been expecting, but it has, by allowing non-resident Indian investment in the stock markets, widened and strengthened the capital market in a dramatic way.

Non-resident Indians can now acquire equity in Indian companies up to 40 per cent of the total capital and repatriate their investments after some time subject to certain conditions.

According to the Reserve Bank, this facility has lately been further liberalised.

Non-resident Indians can also buy as portfolio investment Indian company shares up to a certain monetary ceiling, based on face value with the accompanying benefit of selling it at any time for capital gain or other reasons and repatriate both the capital and the gains.

Many see in this the possibility of substantial Arab money coming into the Indian stock markets through non-resident Indians, based in the Middle Eastern region.

It is well known that Arab financiers are keen to acquire the shares of well-established Indian companies which they cannot yet do directly.

A large part of the black money which used to be

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RODERICK ORAM examines a booming, multifaceted system that is almost half as big as the official gross national product

Black economy is deeply entrenched

INDIA can boast two economic systems. The plodding official one is hampered by the iron corset of Government controls and regulations, producing moderate growth in worthy activities.

The black one, in contrast, is booming as Indians turn increasingly to it out of frustration with the white economy.

Try to control the price and distribution of essential commodities and black marketeers will develop a parallel free economy; try to insist on production of room fans and wealthy consumers will find black supplies of the video tape recorders they want instead.

The black economy is so deeply entrenched that the country depends on it to meet a few basic and many not-so-basic needs that the official economy cannot or will not.

A catalogue of the not-so-basic needs can be found in the pages of "Bombay—the city magazine." It is a slick publication propagandising to a wide and eager audience a beautiful people lifestyle which few could afford under the austere white economy.

To help its readers afford the goodies, the magazine recently ran a book review of "Tax Planning for Secret Income (Black Money)."

Part three of the book explains how to generate black income. Staff of Bombay's International Book House say it is selling like hot cakes.

The black economy has also become indispensible to political parties as their primary source of funds. Together these economic and political forces combine to create a free wheeling—and dealing—system.

The system is multifaceted: a sumptuous wedding feast for 2,000 guests; a 10-fold rise in prices in five years for space in a prestigious Bombay real estate development; abundant supplies of some luxury goods; and the forced resignation in January of the Chief Minister of Maharashtra State after he allocated cement supplies to contributors to his "trusts," are a few diverse examples.

The size of the black economy is much debated. A January article in Economic and Political Weekly of Bombay estimated that it was almost half as big as the official gross national product in 1979, or about Rs 478bn.

Using the same U.S.-developed methodology the U.S. black economy in comparison was about one-fifth the size of GNP, Italy's one-third and Britain's one-tenth.

The applicability of the methodology to the Indian economy can be questioned. But if the actual size is unclear, its growth trend is not. The black economy was about one-tenth the size of the white as recently as 1968, the article found.

It is not a unique phenomenon, Indians stress—"only the brazenness and difference of degree distinguishes India's black economy from other countries," a senior executive of a prominent company said.

He and similarly situated businessmen emphasise that their relatively high salaries and generous perks allow them to live entirely in the white economy.

The main causes of the black economy are: high income, sales and other taxes, the ineffectual enforcement of tax laws, the all-pervasive system of licensing and controls of economic activity, and the pressure to generate unrecorded money to fund political parties.

Mr L. K. Jha, one of India's most highly regarded civil servants and head of the Economic Administration Reforms Commission, said the fundamental reason is that people want a higher income than is permissible under the white system.

Origins

Dr Bhabatosh Datta, a distinguished Calcutta economist, said the black economy took root during the Second World War when sharply rising prices encouraged people to hide some of their profits and income. This black income could only be used to fund more black activity so the black economy took off. The 1971 Wanchoo Commission on the black economy investigated this vicious circle.

Black money "is widely used for conducting business transactions, smuggling gold and luxury articles, purchasing illegal quotas and licences, financing secret commissions, giving donations to political parties, acquiring assets in (nominees) names, etc, behind the vulgar display of wealth which is evidenced by ostentatious living and lavish expenditures on weddings, festivals, etc, is the scourge of black money," concluded the commission which was chaired by the Chief Justice of the Supreme Court.

The system could be seen as no more than a sophisticated free market at work alongside the tightly controlled economic system, with the combined economies performing far more satisfactorily than the official statistics indicate. Per capita income, for example, could be fully 50 per cent higher than stated.

However, there is widespread concern about the black economy's distortion of the white economy. The loss of tax revenue reduces the Government's ability to finance development. Tax dodgers are conspicuous consumers whose cash pushes up prices.

Dr Datta considers black income as one of the fundamental causes of inflation. Moreover, black income tends to find its way into unproductive assets such as gold rather than into the financial system where it could be invested in industrial growth.

Government policy is undermined by the financial assets and economic activity outside its control. When the Government is pursuing, for example, a tight monetary policy to curb inflation, companies and consumers can turn to the "Multani market" for the funds unavailable through financial institutions.

Mr Khrishna Raj, editor of "Economic and Political Weekly," detects increasing public disaffection over the black economy and the related corruption of the political system.

The Bombay High Court found in January a direct *quid pro quo* between the allotment of cement and donations by builders to trusts set up by Mr A. R. Antulay, Chief Minister of Maharashtra.

Mr Antulay was remarkable for his openness. He was completely candid about the trusts, saying their funds were distributed to the needy who he felt were more worthy beneficiaries from the profits of black market cement than the black marketeers. Recipients were no doubt impressed that the money was handed out in the name of the Congress Party and Mrs Gandhi.

Attack

This erosion of the political system and change in morality in public service was attacked in a widely quoted speech earlier this year by Mr B. K. Nehru, Governor of Jammu and Kashmir, who is also Mrs Gandhi's uncle.

Tax evasion is a low-risk activity. A senior official of the board of direct taxes said that income declarations up to Rs 100,000 are accepted at face value. The board's 4,600 inspecting officers and commissioners seek out bigger fish, bringing approximately 400 prosecutions a year, mostly of self-employed businessmen.

From time to time the Government taps the black economy directly. In 1965 and 1975 it declared amnesties on undisclosed incomes, the latter netting Rs 7bn. A bearer bond scheme floated in fiscal 1982 raised Rs 10bn, equal to about 40 per cent of the annual income tax take.

More recently the decision to deregulate cement prices, it is hoped, will channel funds circulating in the black economy back into the white as the black market collapses.

One of the greatest blocks to curbing black income is the fact that the agricultural sector, equal to almost half the Gross National Product, is exempt from income tax laws. This makes agricultural activity an effective "laundry" for black income.

How the Government is loosening up the licensing system

More scope for the private sector

THE MAN who is trying to bring some sense to India's complex and strangling system of industrial controls is the man largely reponsible for developing them in the mid-1950s.

Then, Mr L. K. Jha was the senior civil servant on economic matters. Now he heads the Economic Administration Reforms Commission (EARC) which Mrs Gandhi set up in March, 1981, with a two-year mandate to suggest bureaucratic changes.

In between his two involvements with controls, Mr Jha has held such diverse posts as Governor of the Reserve Bank of India, Ambassador to Washington, Secretary to Mrs Gandhi and Governor of Jammu and Kashmir State.

Few civil servants in Delhi can match his standing, which indicates the importance Mrs Gandhi attaches to the EARC and the difficulty of changing the deeply entrenched system of controls.

All but a few people acknowledge the need for some controls because India will long remain a country of scarce resources. Most people believe, however, that excessive controls are hampering economic development.

The Government's approach seems to be to tinker with the existing system to make it more efficient and less comprehensive. The private sector can have a looser rein and a somewhat larger role but the Government will not undertake a fundamental reworking of the control system.

"We're not trying to produce a magnum opus, we're hoping to produce reports as we complete studies of topics where practical action can be taken," Mr Jha said.

Thus, the ERAC has given the government suggestions for improving the working of the Monopoly and Restrictive Trade Practices Act. Only later does the commission hope to assess the usefulness of the act.

The Government's piecemeal approach was demonstrated last month when Delhi announced its biggest liberalisation of industrial controls in nine years.

The changes opened up almost 50 new fields to the private sector, allowed many companies almost automatic approval for substantial increases in licensed capacity and promised speedier handling of licence applications.

The new fields, running from ferro alloys to printing equipment, either had been reserved for the public sector or small businesses, or no more licences were to be issued because existing capacity was deemed to be sufficient.

New rules

The new capacity rules, which apply to companies with less than a one-third market share, will allow a one-third expansion from the company's best actual annual production. Previously, expansion was based on the five-year average output up to the licenced capacity. This change removes the threat of prosecution for producing more than licensed.

The package has marked "an overdue change in policy," said Mr B. P. Gunaji, secretary of the Bombay Chamber of Commerce and Industry. "We hope this is only the first instalment."

The Government said it will review the effect of these changes in a year Mr Gunaji believes that further liberalisation will depend on how well business has responded.

Similarly, businessmen will be keeping an eagle eye on the bureaucracy. They are worried that some ministries might backpeddle on liberalisation because they have independent thoughts on policy matters.

Chemicals and electronics are believed to be two such areas and it will take at least two months to judge the bureaucracy's acceptance.

One more change that would help smooth an application's passage through the bureaucracy is believed to be in the pipeline. This is "single point clearance" for applications. Currently, a Government secretariat distribute; the paperwork to the relevant departments. Often as not, applicants spend excessive time, effort and sometimes money to get the files moved from desk to desk.

There is no lack of scope for additional changes. Controls have become so complex "that even the executive authorities responsible for implementing controls are unaware at senior levels of the exact control system which they have to implement," the Dagli Committee on the topic concluded in 1979.

The main ones are the Industries (Development and Regulation) Act covering such subjects as capacity licences, the MRTP Act which is supposed to stop powerful groups dominating business, the Foreign Exchange Regulation Act dealing with such matters as foreign ownership of Indian companies and foreign exchange, the Essential Commodities Act which empowers the Government to control the price and distribution of goods, and the Industrial Policy Resolution of 1956 which laid down basic guidelines on *who can do what*. There have spawned a plethora of minor laws, executive directives, administration edicts and judicial interpretations.

The objectives then and now of controls are: to channel investment into priority industries and regions; to tailor industrial capacity to planning targets to avoid wasteful competition; to encourage new entrants and broadbased ownership to counter the power of the big combines; and to foster greater efficiency by demanding the best technology.

Controls seemed beneficial initially. Industrial output grew at a real average rate of 7 per cent a year from 1951 to 1965, according to Mr Ashok Jaitly, a senior civil servant who is writing a book about industrial planning.

But the rate fell sharply after a partial liberalisation of controls in 1966. The changes then, bearing a close resemblance to this year's, included the delicensing of a few industries and the easing of both the monopoly policy and price and distribution controls.

Only the chemical and electrical equipment industries maintained an average annual rate of growth of more than 5 per cent from 1966 to 1981. The all-industry rate was 4 per cent.

Proponents of controls said that industry performed better under tighter control and failed to respond to the liberalisation 15 years ago.

Opponents of controls said industry failed to grow more rapidly because the liberalisations were in an ad hoc fashion lacking any long-term framework, a criticism applicable to this year's changes.

Imbalances

If there's doubt about the effect of controls on industrial growth, there is no doubt about the failure of their other objectives.

The Indian economy is suffering from severe structural imbalances. On one hand steel, cement and other products vital to economic development are in critically short supply. On the other hand, supply of luxury consumer items such as high quality textiles is excessive.

Some cities such as Pune, Bangalore, Hyderabad and Delhi have industrialised. But the three most industrialised states—Maharashtra, West Bengal and Gujarat, with the traditional manufacturing centres of Bombay, Calcutta and Ahmedabad—received nearly half the industrial licences issued 1973-75.

The three most backward states—Orissa, Bihar and Keraia—got 7 per cent.

Moreover, Maharashtra and Gujarat received 44 per cent of the Central Government's industrial subsidies in the same period while Orissa and Bihar received none.

Many companies subject to the MRTP Act (the threshold is net assets of Rs 200m, or a one-third market share) have become adept at manipulating the system. Their contacts and information sources ensure they are at the front of the queue when new licences are opened up on a first-come/first-served basis and they can chase their applications through the bureaucracy.

"It's not a production strategy that decides profit but the ability to corner licences," a Delhi economist said.

Yet businesses which have benefited from controls eagerly advocate a loosening up of the system. They are confident they can maintain their influence over their industries while enjoying a greater freedom of action.

Roderick Oram

Stock markets move ahead

CONTINUED FROM PREVIOUS PAGE

invested in commodities has reportedly moved into the stock markets. The proof of this was seen on Bombay Stock Exchange during April and May last year when share values rose daily or even hourly to unprecedented heights. It was as if a bit of Hong Kong had suddenly come to an Indian stock market.

The point is that although the bull frenzy has gone (or rather been contained) by drastic counter-measures by stock exchange authorities at the instance of the Union Finance Ministry, the share values have not fallen back appreciably.

Rather, such fluctuations or up and down movements as have been taking place are mostly technical in nature and quite normal to stock market activity.

Even the salaried middle class people have emerged as a source of strength to the stock markets. It is said that when the foreign companies operating in the country diluted their equity to bring down foregin share-holding generally, 40 per cent, millions of middle class investors entered the market to lap up whatever they could get.

These share issues had great asset backing and offered immediate capital appreciation prospects.

Since the share issues by Fera companies (that is foreign compaines governed by the Foreign Exchange Regulation Act) the stock markets have also moved from strength to strength to strength, not only in terms of increases in share values, but also from the point of view their usefulness as source of risk capital stopped during 1981-82, as Rs 5bn was raised by way of fresh equity issues and debentures—a record so far—as against only Rs 700m during the earlier half of the 70s.

The Reserve Bank index for ordinary industrial securities stood at 200 last December, with 70 as the base.

The index has since come down to 196.4 but the decline is only marginal. With the undertone remaining bullish, further advances in the near future cannot be ruled out.

No central agency has been compiling the total value of company shares listed on the country's nine stock exchanges, nor any record kept of the market value or market capitalisation. But if the spectacular increase in the number of companies listed on the stock exchanges is any guide—the number of such companies has trebled over the past three decades from 3,125 to over 2,300 and new additions are being regularly made, then both the market value and face value of the listed stock must have been going up.

However, experts feel that with inflation in the Indian economy fairly under control, competing savings or investment outlets such as bank deposits, gilt edged stocks or deposits with non-banking companies, which offer 15 per cent, or slightly more, might soon become more attractive and thereby affect the stock markets.

At least the more safety or security-minded savers may go in for the later class of outlets, also the issue of two new bonds by the Government—social security certificates and public investment bonds—may mop up savings that might otherwise have gone to the stock markets.

It remains to be seen what will actually happen. But judging from the flood of new share and debenture issues coming to market now, the buoyancy has remained unaffected so far and the outlook seems reasonably good.

P. C. Mahanti

P. C. Murthy looks at the role of India's industrial investment institutions

How industrial projects are financed

INDIA HAS a sophisticated financial system to assist the establishment of industrial projects. Proposals with a total investment of Rs 50m (£3.09m) or more will have to be cleared by the Industrial Development Bank of India (IDBI), the leading financial institution, *although the Industrial Credit* and Investment Corporation of India (ICICI) and Industrial Finance Corporation of India extend term credit.

The ICICI was, until recently, the only foreign currency lending organisation but the IDBI has diversified to foreign currency loans.

An inter-institutional committee, comprising representatives of IDBI, ICICI, and IFCI will elect the consortium leader from the three financial institutions, which will be the contact point for the entrepreneur even though all the term lending institutions participate in financing a project.

Industries categorised "core" sector by the Government, such as cement and fertilisers and those contributing to export promotion and import substitution, are given priority for lending purposes. Once a project is accepted for financing, all *aspects including cost over-runs* are taken into account.

Underwriters

Apart from providing term credit, financial institutions underwrite, along with private underwriters, the equity share and debenture flotations. Even in cases where private underwriters are not coming forth, the financial institutions take the risks of the public share *issue provided, of course, that* the project is of national importance.

The promoters' contribution in an industrial project is kept flexible, depending on the nature and size of the project. For a Rs 1bn project the promoters contribution can be as low as 10 per cent. The norm of the financial institutions is 20 per cent. Unlike in many other countries where a 51 per cent stake of equity is necessary *to retain control over a company*, the promoter in India can guide the affairs of a company even with a shareholding of less than 40 per cent. In fact the allegiance of shareholders to a particular management is such that some big business houses like Tata and Birla are controlling the companies with less than a 10 per cent equity shareholding.

On an average, the promoters' contribution to the total project *cost of all industrial units* financed by India's major term lending institutions constituted only 28 per cent in the year to March 1970. The share of loans extended by these institutions in the total project cost was 50 per cent in 1978-79, says Mr N. Pai chairman of the Industrial Development Bank of India.

Linked to the promoters contribution is the debt-equity ratio in an industrial project. The norm is to have 1:1 or 1.5:1 debt equity ratio for projects costing Rs50m and the ratio goes up to 2:1 for projects between Rs50m and Rs100m. For large projects (with an investment of more than Rs100m) the debt equity ration is normally 2:1 but this is relaxed for capital-intensive industries like shipping units with an export obligation of 51 per cent or more and large core sector projects.

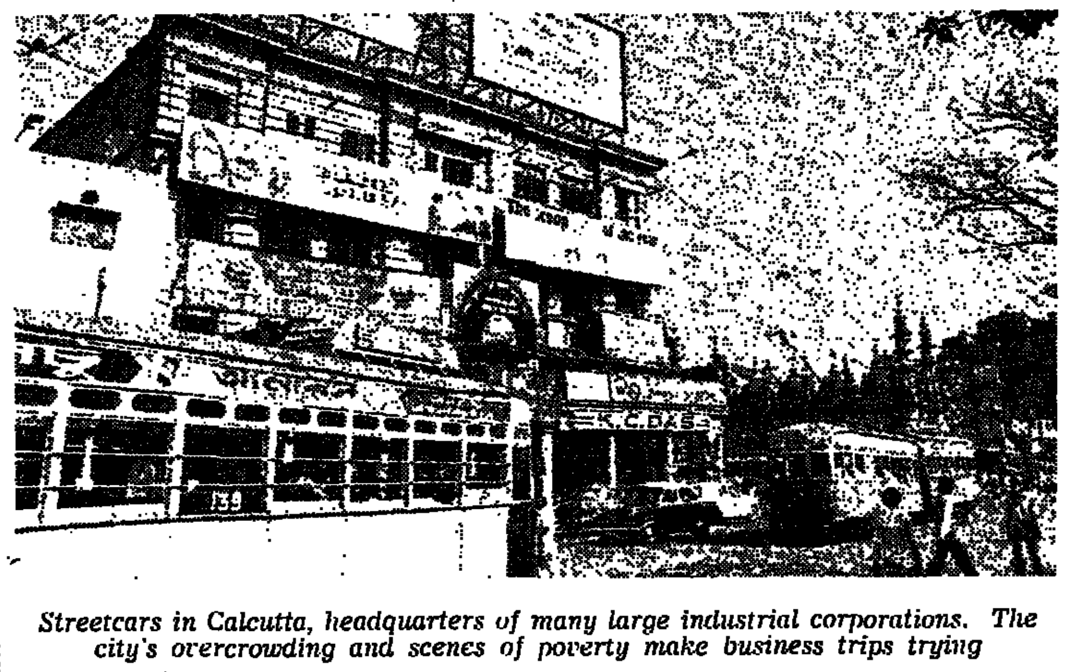
Guparat and Narmada fertilisers, for example, is a company jointly promoted by the private sector entrepreneur and the Government of the western state of Gujarat has set up a modern fertiliser unit of 1,350 tonnes per day of ammonia and 1,800tpd of urea.

The contribution of promoters is only 10.2 per cent of the total cost of Rs4.5mn and the debt equity ratio is as high as 4:1 for a Rs240m cement project of Mangalam Cement, promoted by Birla, the private sector conglomerate, the promoters contributions 11/33 per cent and the debt equity ratio is 3:1.

Projects promoted by Birla and other big industrial houses in India or foreign companies normally have a debt equity ratio of 2:1. In the case of Mangalam Cement, however, the relaxation is made because cement is a "core sector" item and enjoys priority for funding by the financial institutions.

A peculiar feature of the financial package in India is the inclusion of what is called a convertibility clause in the loan agreements of Rs10m and more. A clause in the loan agreements drawn up between the financial institutions and project promoters stipulate the right of financial institutions to convert *a part of the loan* given the equity within a specified period. Normally the conversion right is for a maximum of 20 per cent of the loan.

The idea of such a stipulation is that the lending institutions should share the prosperity of the assisted units and raise resources for financing new projects. The view of the Government at whose direction the convertiblity clause is included in loan agreement is this will enable the financial institutions to have a say in the operations of assisted units, at least until the loans are repaid.



Streetcars in Calcutta, headquarters of many large industrial corporations. The city's overcrowding and scenes of poverty make business trips trying

Guide to Indian and overseas business collaboration

The key to success in joint ventures

"WE FIND the negative image of India, based on people's first impressions, is not justified. Behind all this poverty is an industrialised nation with high standards. Behind all the red tape is a way to do business," says Dr Guenther Krueger, executive director of the Indo-German Chamber of Commerce in Bombay.

Based on his 13 year's experience in India, Dr Krueger says finding a reputable local partner is the most important aspect of doing business in India—and at the same time the hardest.

A local partner is essential because of the complexities of the Indian bureaucracy, the delicacies of Indian business methods and the tight control on foreigners' activities. Most particularly, the direct sale of imported goods is virtually excluded.

The partners role can take various forms depending on the product and the foreigner's aspirations. It can run from offering comprehensive sales representation to an equity stake in a manufacturing joint venture.

Most business by foreigners is done through collaborations with Indians. The Government has approved about 5,700 such ventures in the past 20 years, 1,250 of them with British companies. But Britain's share is diminishing as Indian needs diversify and they learn to deal with other nationalities. In fiscal 1981, 525 collaborations were approved against 289 a year earlier—128 (57) with Americans, 106 (61) with British, 95 (60) with Germans and 32 (19) with Japanese.

The simplest form of collaboration is a technology tie-up which typically lasts five years. In exchange for the information, the Indian company will pay either a lump sum (usually about 1 per cent of the turnover and taxed at 20 per cent) or a royalty of up to 5 per cent which attracts a 40 per cent tax.

The Indian collaborator can become a competitor but it is usually possible to write constraints into the contract. The sale to the Indian company of production equipment and components is a possibility.

A joint venture with equity stakes held by the Indian and foreign collaborators is the more involved alternative to a straight sale of technology. Typically the foreign stake is 40 per cent or less so the venture safe*guards its status as a domestic* company. In cases of high technology or substantial exports of the venture's products, the foreign stake can be controlling or even in extremely rare examples up to 100 per cent.

Despite India's restraints on remittance abroad of profits and dividends, an equity venture can be profitable for the foreigner. Often the cash outlay is low because it receives equity for the technology and equipment it *supplies. Again, the con*tinuing sale of components is a possibility.

All the conditions for collaborations laid down in law are only the starting point for bargaining with the Government for approval. "Everything's negotiable here—that's one of the things that drives foreigners mad," a senior American official said.

Representatives

Almost always the joint ventures are new companies set up for the purpose, and increasingly with a minority Indian shareholding floated on the local stock markets.

After collaborations, come the only other practical route into the market for foreigners—using the services of a concessionaire, representative or agent. Definitions of those terms depend on who you talk to. One concessionaire whose large company offers full technical sales and after sales services, said that the business is increasingly "passing into the hands of touts" which is what he calls the small agents offering a more rudimentary service.

The difference is important for tax purposes. A concessionaire or representative can claim it is doing direct business as a principal whereas an agent may be frowned on by the authorities as a mere go-between and attract higher taxes.

One of India's largest representatives is Greaves-Cotton, originally an English company sold to Thapar, one of the major Indian combines, in 1947. For a straight fee it offers its technical and sales skills "as an equal" to the foreign manufacturer, according to Commodore I. K. Malhotra, a vice president.

It represents a wide range of foreign companies including Rolls-Royce and Dowty of the UK, Beech Aircraft of the U.S. *and Deutsche Babcock.* Some of the other relationships have evolved into manufacturing ventures.

The Japanese do business differently. Fourteen Japanese trading companies have liaison offices in India which handle almost all of the $2bn a year Indo-Japanese trade. The Indian expertise is resident in their Indian employees working under Japanese staff posted usually for three years.

Mitsubishi officials in Bombay said it was theoretically possible for them to represent a non-Japanese company in India but agreed that it would be highly unusual.

Candidates for partnership can be found through commercial officers of embassies bilateral chambers of commerce (many of whom which will help sometimes companies from third countries), and organisations such as the British and South Asia Trade Association.

Dr Krueger says there is no shortage of Indian companies seeking foreign links, but he warned that some only begin talks so their executives can get travel and foreign currency documents from the Reserve Bank of India.

He urges foreigners to get the very best legal and auditing advice in India because too many collaborations fail through a weak and ambiguous contract. Time should also be taken to prepare the groundwork thorougly — many "stopover deals" arranged en route to another country end up in court because the Indian negotiator kept saying "no problem, no problem" because he was too polite to say otherwise in the haste of it all.

Indians like to do business on the basis of friendship and Dr Krueger thinks it is important to get to know your partners on these terms.

"There are two worlds in one *person. A Harvard or LSE* educated executive who wears a suit in his office may seem totally Westernised until he refuses to sign a contract on a given day because his astrologer advises against the timing," he says.

Similarly he knows of the case of an Indian businesswoman who had a substantial business proposition to make. Because she thought it was friendlier she wrote by hand to all the prospective German *partners. Nobody replied* because they thought she could not even afford a typewriter.

"Never, never, get involved in the Indian way of doing business," which is the euphemism the people offering the advice use for the need sometimes to pay "speed money" to hasten or ensure the positive outcome of bureaucratic dealings.

The term reputable covers partners who do resort to "the Indian way" when they feel it is necessary.

"Agents fees can be pretty hefty and cover a lot. We don't ask questions," a British trade official said.

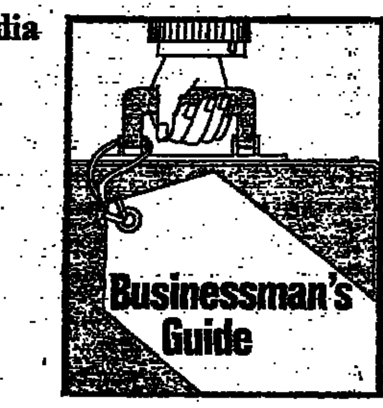
"We leave it to our Indian partners to fix things and then look after it later in the contract," a Japanese trading company official said.

But Indians and foreigners alike stress that the need for such actions varies enormously depending on the circumstances. A lot can be achieved with inexhaustible patience and excellent contacts in the bureaucracy. These are qualities Indians possess — "a foreigner would die of frustration trying to unscramble the rules and regulations," an American trade official added.

Roderick Oram

Despite many complexities, business in India can be rewarding, says K. K. Sharma

Be sure to learn the rules!



BEFORE deciding to do business in India, take a deep breath, pause and ponder, and then decide first that you *will do business, come what may.* This will give you the necessary determination to cope with all the frustrations you will encounter.

The visiting businessman will discover endless hassles—Government controls, telephones that will not work, flight bookings that do not materialise, appointments that may be forgotten, plus the hot and humid climate and a host of other difficulties.

These should not really be a deterrent and, in the end — provided you are willing to learn the ways of the Indians and face the challenges posed by bureaucratic procedures — business could be rewarding.

The first thing to do is to learn the rules, therefore visit any branch of the Indian Investment Centre which has its headquarters in New Delhi and branches in many major cities in India and overseas.

The rule of the thumb is that the most likely business is in joint ventures, with the minimum of foreign equity participation (see separate article by Roderick Oram on this page).

Most businessmen have heard a lot about corruption in India, but do not be carried away by visions of having to buy your way through every stage.

"Commissions" and "promotional fees" are best faced with caution. Government officials are badly paid, but the middle-level and high-level bureaucrats with whom you will come into contact are surprisingly honest (there are, of course, exceptions). Delays do not always occur because a payoff is needed, but because of the elaborate, cumbersome procedural tangles in which any proposal is enmeshed. It is usually the politicians who are "on the make" and you will be particularly unlucky to clash with them.

Entertainment

Government officials, but not Indian businessmen, have low entertainment budgets, so much of your work will need to be done at their offices. Working meals are rare and entertain*ment is usually for socialising.* Check whether your host or guest is a vegetarian — because he may well be. Many Indians appreciate a tipple, and the status-conscious like to drink scotch which is very expensive, so bring some from the duty-free shop. The Government discourages the drinking of alcoholic beverages in public, although this is gradually being relaxed.

Remember to make hotel bookings well in advance, reconfirm arrangements by telex before arrival and pound the desk and shout if there is no record on arrival. Friendliness will often do the trick, but it is a sad fact that some Indians—*mostly again at lower levels*—only act quickly when prodded, even if this has to be accompanied by some rudeness.

Flying is the most efficient way to travel around in India in view of time and the distances involved. (Trains are always over-crowded and slow but there will be many points you can reach only by rail.)

Indian Airlines, the domestic carrier, has greatly improved its *services after acquiring* Airbuses and Boeing 737s, but do not count on services operating to schedule—and always double check your reservations.

If you have air-booking difficulty, do not merely rely on travel agents, but go direct to the main Indian Airlines office and try to see the top man who will usually help because there are often a few seats available, even when the plane is "full."

Taxis are available at all airports and in all major cities and towns; but you must resign *yourself to the prospect of being* over-charged. Hotel service varies, but it is usually good at the five-star hotels.

India has some marvellous hotels, and the cuisine is excellent, but they could fall short in international standards on such services as telex and telephones mainly because telecommunications in India are notoriously inefficient. All hotel bills by foreigners must be paid in foreign exchange, but the better-known credit cards are usually accepted.

Nightlife (where it exists, at all) is staid by European standards, but private parties in the major cities can be lively. Beware of drinking too much of the local brands which the hospitable Indians will insist you imbibe and be prepared for late meals.

Finally, when considering business in India, it pays to do your homework, as this will lessen the frustrations. Try to contact the right people and aim as high as possible at the first contact. Use letters of introduction if you can obtain them—and the higher the source of their origin, the better. This will ensure the attention of higher level excutives and officials.

The cities you will probably visit are:

● **New Delhi:** the seat of the National Government, this is more of an official town, although many new medium-sized private companies and several major public sector offices are located here.

Top-level decisions are made in Delhi, but finding the decision-makers can be a problem. Hence the importance of a good local contact.

The people, especially those in Government and industry, are usually well-informed and receptive to new ideas. Contacts in Delhi are usually the key to any dealings on a national scale.

Stay at the superb New Maurya Sheraton or the Taj Mahal, the older-style Ashok or the Oberoi Intercontinental. All of these are luxurious and offer excellent facilities, including good restaurants with both Western and oriental cuisines.

● **Bombay:** *This is India's leading port and commercial city.* It teems with businessmen, all keen to set up deals. You would do well to watch the small print and check financial commitments carefully.

Businessmen are experts at finding ways around Governmental regulations but this is an area where you need to be particularly watchful.

There are excellent hotels: the magnificent Taj Mahal overlooks the harbour. Also good is the 34-storey Oberoi Towers. The Centaur, near the airport is modern but a long ride to the city, while the Welcom Hotel Searock is halfway between airport and city. Also good is the President, again operated by the Taj group.

● **Calcutta:** Poverty and overcrowding make it the most difficult of Indian cities and could make a business visit trying. But Calcutta remains one of the country's most important commercial, cultural and creative centres being the headquarters of many of the country's largest industrial corporations and an essential destination for those *seeking business opportunities.*

Hotel scene

The hotel scene is worse than in any other Indian city. The best is the Oberoi Grand, since it has its own generator which is very useful in a city plagued by power cuts.

The Airport Ashok is modern and well run, but it is a 45-minute drive to the city. The new Kenilworth Hotel has a wing of modern rooms and is centrally located. Avoid the Great Eastern, once the best hotel in town, but now hopelessly run-down.

● **Madras:** This is the quieter and more relaxed of Indian cities and less important, commercially, but it is still the key to the southern states.

Having contacts arranged in advance is not as important as the business community is smaller and there appears to be less competition among executives. Business people in Madras are helpful and friendly, if not always efficient.

The Conemara Hotel has an old atmosphere and is now modernised and in a good location. The Taj Coromandel and Chola Sheraton are also good, more modern, but with less character.

● **Bangalore:** The newest of the commercial cities, this is the home of five major public sector undertakings which are now modernising with the help of foreigners. A great deal of private industry has also been established and Bangalore is, alas, no longer the "garden city."

The business environment is much as in Madras and there should be little difficulty in making contacts.

The West End Hotel has a wing with old spacious rooms and newer sections with more modern amenities. The Ashok offers good service and modern amenities.

Alain Cass examines the extraordinary diversity of Indian life

Living with communal tensions

INDIA has been described as the most "inviolable organisation by birth" where, with occasional exceptions, it is not so much who you are, but what group you belong to which matters.

This complex tangle of castes, religions, regional and tribal groupings permeates every aspect of Indian life at virtually every level and in every sphere of life.

A person's caste can still determine where he lives, what job he gets, whom he can marry, whether he can worship, *what* he can eat and whom he can touch.

Although India's constitution *officially* recognises 14 languages there are more than 250 dialects. Within each of the linguistic groupings there are perhaps between 200-300 castes and sub-castes.

Barriers

In addition, India encompasses six major religions and countless sects. These cut across the linguistic divide in *the same way that castes also* transcend the language barrier. *Hence, there are Bengali Mus*lims and Hindus, high-caste Bengalis and low-caste Bengalis, neither of whom may be able to communicate with their respective co-religionists or fellow caste members in, say, the southern state of Kerala where the main language is Malayalam.

Their only common denominator—other than being Indians—may be the English language, since only about 20 per cent of the population speak Hindi, India's indigenous official language.

This extraordinary, indeed, unique diversity, has been both *the strength and the fatal* weakness of India. The strength lies in the richness of the country's texture and the energy generated through such diversity.

Beyond this, the many cross-cleavages with Indian society often acts as cohesive, rather than divisive, force.

Take *the* Bengali example again: those living in India's West Bengal are unlikely to be tempted into succession by their fellow-Bengalis across the border into Bangladesh partly because those are predominantly Muslim.

The weaknesses of the Indian mosaic are *painfully evident.* The most dramatic example, of course, was the partition of the subcontinent itself at the time of Independence in 1947, *when* fundamentalist Islam found ex*pression in the creation of the* state of Pakistan, amid widespread carnage.

Population by religion

Religion	Million†	Percentage
Hindus	453.4	72.7
Muslims ...	61.4	11.2
Christians...	14.2	2.4
Sikhs	10.4	1.9
Buddhists ...	3.9	0.7
Jains	2.6	0.5
Others	2.2	0.4

† Figures for 1971. India's population has increased at the rate of around 2 per cent a year since 1971. The census statistic for 1981 was 684m.

Life in India is still littered with communal tensions. However, whereas these tended to be largely confined to clashes between Hindu and *Muslims* in past years, recent developments *indicate* a worrying increase in tension both between non-*Muslim* communities and Hindus (such as the Sikhs), as well as between different castes within the Hindu religion itself.

Latent tensions can also be *ignited by outside forces, as in* the case of riots in Srinagar, capital of India's sensitive, Muslim-dominated border state of Kashmir. The riots occurred in the wake of a call by Saudi Arabia for a worldwide protest against the shootings in Jerusalem, in April, when a young *Jewish gunman went berserk in* the Dome of the Rock Misque, *Islam's second-holiest shrine.*

One of the by-products of Mrs Gandhi's recent visit to Saudi Arabia will, hopefully, be to ease Muslim fears.

More *worrying, perhaps, for* the Indian Government have been the recent riots in the Punjab which followed the discovery of the severed heads of two cows in a Hindu temple, in Amardnare, the Sikhs' holy city. The suspicion by the Hindu community was that the outrage had been *committed* by extremist Sikhs who, in turn, *object to Hindus smoking in the* vicinity of their temples. These were the first clashes of their kind since Independence.

The Government has since *banned two* extremist Sikh organisations. So seriously did the Government *take the tensions* in the sensitive border region that a committee headed by the Prime Minister was set up to handle it.

The two banned organisations, Dal Khalsa and the National Council of Khalistan, have been campaigning for a separate Sikh homeland.

Separatism is not confined to the Punjab. The most direct *threat comes from separatists* in India's volatile north-east *region. This is examined in a* separate article.

By and large, however, separatism is no more than a minor irritant. Even the most implacable opponents of the centre and Mrs Gandhi's attempts to strengthen it see the benefits of belonging to an, albeit loose, federation.

On a more obscure level the *massacre in Calcutta at the* beginning of May of a small, ex*tremist* group, called the Ananda Margis, by local people who claimed they were abducting children to forcibly convert them also underline the apparent fragility of Indian society.

India's constitution recog*nises the existence of backward* castes and tribes and makes specific provisions for pulling them up the economic and social ladder.

It defines three basic groups: the Scheduled Tribes, the Scheduled Castes and *Other* Backward Castes. Twenty-five per cent of jobs in the public sector are reserved for these special categories.

However, such is the scale of poverty in India that the *loosely-worded definition of* "Other Backward Castes" has become a *focal* point for the under-priviliged groups who have a vested interest in being categorised as a backward caste.

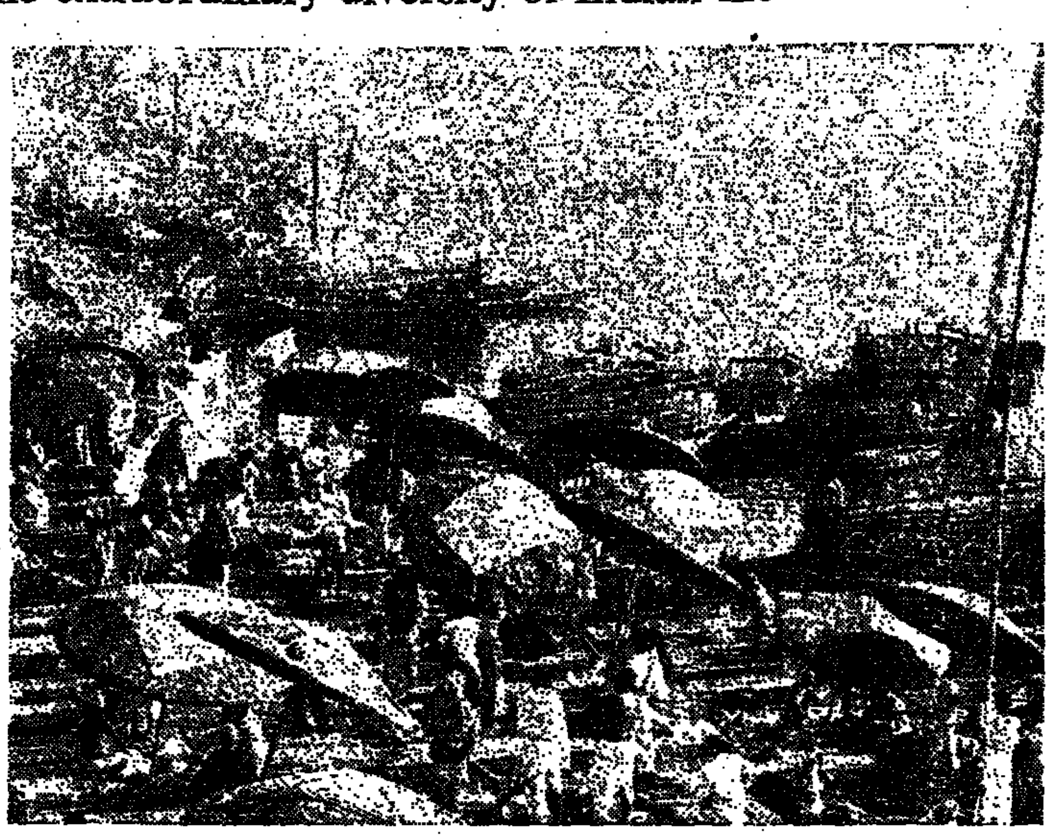
In recent years, there has been a backlash against this *policy of positive discrimina*tion in favour of schedule *castes from the higher castes,* many of whom are equally economically backward.

Prof Andre Beteille, India's leading sociologist, argues that India's economic backwardness has helped to preserve this system. The reverse is no doubt also true. The caste system has also been ruthlessly exploited by the political parties.

Compared to 20 or *30* years ago, however, it is also true that caste rigidities are no longer as severe as they used to be. Economic progress has *eroded this* unequal structure even though that very progress *has* created other inequalities of its own. The pavement-dwellers of Calcutta, Prof Beteille points out, are not just Harijans, but of all castes.

Pernicious as it may be, the caste system is not likely to vanish in the foreseeable future.

"It was, after all," said one *observer* "laid down 4,000 years ago in the Bhagavad Gita, (the *Hindu's holy book*)."



Hindus throng the banks of the sacred river Ganges

Deeply rooted caste system

"THE FOUR CASTES are emanated by me, by the different distribution of qualities and actions" — with these words, 4,000 years ago, were *laid* India's caste system which has lasted into *the 20th century.*

The caste is, basically, a status group. Its Western equivalent would be a cross between a guild, a freemasonry, and certain religions with a distinctive life-style *such as the Hassidic Jews.*

The difference, however, is that Indians are born into their castes and live within them until death. There can be no opting-out or "*promotion*" within the caste system.

There are four major Hindu castes. These are known as Varnas. They are, in pecking order, the Brahmins (priestly caste), Kshatriyas (warriors), Vaishya (traders), and Sudras *(servants).*

The Harijans, or untouchables are generally regarded as being beyond the pale.

Within these four castes* there are hundreds, perhaps thousands, of *Jatis* or sub-castes. These can range from Valars (potters), Pandidras (barbers) or Vannan (washerman). The caste system is, primarily a division of labour which has evolved over the years, developing its own social structure, barriers, *rules and rites.

Many problems for the Muslim minority

AMID THE ancient and decaying Moghul splendours of one of the greatest Muslim empires that the world has known, squats Syed Abdullah Bukhari, the corpulent and controversial Imam of Old Delhi's Jamma Masjid Mosque.

The spiritual and temporal *impotence* of Syed *Bhukari* himself and the colourful but squalid Musim ghetto over which he presides are potent symbols of a once mighty Indian community that has lost its way. Packed as it is against the very walls of Emperor Sher Jahan's imposing mosque and massive *Red Fort, Old Delhi's economic*ally backward Muslim com*munity offers a sad commentary* on the extraordinary decline of a *once-powerful* trading community.

Chewing his betel nut, spitting the remnants into a silver bowl, Syed Bukhari remembers with nostalgia his ancestors who served as Imams to the Moghul emperors; he then goes on to rail against what he calls "the *economic, political and religious* discrimination" being *perpetrated against the* Muslim's India's largest minority.

Disparaged by many of India's Muslim elite as a man who is not above rousing communal passions for short-term political or financial gains, Syed Bukhari was imprisoned by Mrs Gandhi during the emergency, backed the *Janata* Government in 1977, fought for *Mrs Gandhi in the 1980 election* which brought her back to power and today condemns her for what he calls "*her series of broken promises,*" and her "*anti-secular policies.*"

"Mrs Gandhi made promises. We helped bring her back to power. She has broken these promises. Ours is a powerful voice. We can support her no longer. This is not a secular government—this is a lying government. We will fight and *defeat them,*" *he says.*

But Syed Bukhari's words *are empty threats.* India's 80m or so Muslims are potentially the country's most powerful minority. But since the partition of the sub-continent in 1947, when millions left their homes in India for Pakistan, amidst a wave of violence, recrimination and hate on a gigantic scale, *India's Muslims have formed a* divided, defensive, demoralised and economically backward community without a political party or leadership to defend its interests.

Neither Syed Bukhari, nor any other self-acclaimed Muslim leader, is capable of mobilising more than small sections of the *Islamic* community. The most able of the Muslim leaders moved across to *Pakistan* in 1947.

The fact that unlike the numerically much more insignificant Sikh community, India's Muslims have been unable (or unwilling) to organise themselves *into a powerful pressure group,* is both a function of history *and geography.*

Dispersed

Unevenly dispersed throughout modern India, only in Kashmir, *where they account for* some 75 per cent of the popua*tion, have they been able to* organise themselves in a way which has enabled *them to ex*tract significant concessions from Central Government.

In the words of Mr A. Jamal Kidwai, the Vice Chancellor of Delhi's Jammia Milia Muslim University: "The community has taken a terriffic battering since 1947, but it has not *acquired the virtues of the Jews* —hard work, dedication to econ*omic improvement. Nor have* we had a united and dedicated leadership.

"There is no Muslim political party of any size capable or willing to defend our interests, and those leaders we do have, scattered throughout congress and the opposition parties have, *on the whole,* been opportunists, or hangers on."

Though *India's Muslims voted* along with the rest of the country *to push* Mrs Gandhi out of power after the extremes of the emergency, they soon found to their widespread dismay that, under the Janata Government, *anti-Muslim Hindu* chauvinists from the Jan Sangh Party were *playing a powerful role.*

The result was a growth in *communal* violence. Though there are no figures it is clear that well over 50 per cent of the Muslim vote went to put Mrs Gandhi back in power in 1980. She has since been assiduously cultivating them—*her visit to Saudi Arabia being* the most notable example.

Many Muslims trace the *increase* in communalism over the past three years to the growing influence of extremists in the state police and Army Reserve during the Janata period

The trauma of partition, the constant threat of communal violence, particularly in urban *areas and the loss of its most* able sons to Pakistan, has meant that India's Muslim community has played little part in the mainstream of national life.

According to a widely-respected Muslim politician, Mr Syed Shahabuddin, the average per capita income of the Muslim community is lower than the national average, a large pro*portion lives below the poverty* line: there is a higher incidence *of illiteracy and unemployment.* and, in middle to large-scale industry, *Muslims are hardly* represented at all.

In a group of 2,382 industrial establishments, owned by large corporate units, only four are owned by Muslim industrialists.

Quoting a recent paper, Mr Shahabuddin concludes that entrepreneurship at the large and *medium-scale* industrial level is almost non-existent *among the Muslim community.*

Economically, India's Muslims have never really recovered from their inability to grasp the opportunities of education and modernisation which the British Raj brought with it.

The largest part of the small and successful Muslim middle class community which did manage to pull itself into the *industrial age opted to live in* Pakistan.

And though a rich and more self-confident middle-east has created new economic opportunities for India's Muslim traders, professionals and labourers in the past decade, by and large, India' Muslim community has been *unable to throw* off the shackles of an outdated religious-centred educational system which has done much to ensure that a disproportionate number of Muslims remain along with the Harijans (the "*Untouchables*") *and other* scheduled tribes among the most economically backward communities in India.

Richard Cowper

The UK remains the largest foreign investor in India

New trade agreements with UK

WHEN Mrs Ghandi shook hands with Mrs Thatcher in London, earlier this year, some said it *was difficult to see* just what the two had in common, apart from *the remarkable fact that* both were women prime ministers in *a political world still dominated* by men.

In matters of foreign policy, the two leaders certainly have a very different outlook on the world. India likes to see itself as the natural leader of the non-aligned movement while Britain is a staunch member of the *Nato alliance.*

Under Mrs Thatcher, Britain has moved noticeably closer *to* the U.S.—a nation which India has learned to treat with much distrust. And of all the EEC countries it is perhaps Britain that has been most willing to back the U.S. in its tough stance against *the* Soviet Union, a long-time partner and friend of India.

In contrast, Mrs Gandhi has been hesitant to risk India's strong economic links with the USSR by an outright condemnation *of its invasion* of Afghanistan and, on Poland, Mrs Ghandi has publicly stated that she regards the whole affair as an internal matter. India has also caused considerable annoyance in Britain and non-Communist *South-East Asia* by recognising the Vietnamese-backed Heng Samrin regime in Kampuchea.

Thorny issues

There have also been a number of thorny bilateral issues, some of them stemming from the long *historical* relationship between the two countries, such as Britain's new immigration policy and Indian policies on foreign companies which, at times, have made relations between the two nations less than smooth.

But the fact is that Britain remains the largest foreign investor in India, its largest bilateral aid donor and its third largest *trading partner.*

Moreover, the sharp divergence of *opinions* over East-West relations and the occa*sional tiff that must inevitably* flare-up between two nations whose destines were once so intertwined, has not stood in the way of the development of a much improved bilateral economic relationship over the past *two or three years.*

INDO-BRITISH VISIBLE TRADE

(Figures in £m)

Year	British exports	British imports	Total trade
1970	73	106	179
1971	138	111	249
1972	141	112	253
1973	133	149	282
1974	127	203	330
1975	164	237	401
1976	207	355	562
1977	278	383	661
1978	349	322	671
1979	456	366	822
1980	529	316	845
1981	695†	330†	1,025†

† Preliminary estimate.

Source: British Overseas Trade Board

While this is, in part, due to the general opening up of the Indian economy there is little doubt that Mrs Gandhi is now looking to Britain to play a much greater role in the Indian economy in the 1980s than was the case just a few years ago.

Many in the British business and diplomatic community in India believe that Mrs Thatcher's visit to India last *year* and Mrs Gandhi's return trip to Britain this April has done much *to improve* the relationship between the two countries, most noticeably on the economic front.

In what businessmen say was an unprecedented move *for* a country which has traditionally been extremely distrustful of foreign equity participation and proud of its ability to stand on its own, *Mrs Ghandhi* made a plan for more British investment in India.

In return, Mrs Ghandi was undoubtedly pleased that during her trip to London, Britain agreed to pledge its full share of the sixth IDA replenishment over one year, rather than two as the U.S. has said it will do. Traditionally India has accounted for around 40 per cent of IDA loans which come in grant form.

Despite its own economic problems, Britain also agreed to increase its bilateral aid to India in 1982-83 and still further in 1983-84.

At *a time when* India is facing foreign exchange constraints in an *aid-fatigued* world, these gestures have not gone *unnoticed in New Delhi.*

At the most dramatic level, the new economic relationship has shown through in the award by the Indian Government of three major multi-million pound contracts. To Britain, in 1978, agreement was reached to buy some 85 Jaguar deep penetra*tion strike aircraft,* worth around $400m with the option of manufacturing about *80* more in India. And, in 1981, Davy McKee, the heavy industrial arm of Britain's Davy Corporation, won a contract to build *a $1.25bn steel works* at Orissa, along with companies in France and Germany.

Work worth about $500m will be carried out in Britain. And, *this* year, India awarded in principle a contract to build a 1,000 Mw thermal power plant at Singrauli to a British consortium consisting of Northern *Engineering Industries,* General Electric and Babcock.

The plant and associated mine development is likely to cost around $850m.

The first of these three contracts has already provided a major filip to British exports to India *which are estimated to* have grown to around $700m last year, double that of the £350m exports to India in 1978.

In 1960, British exports *accounted* for around 20 per cent of total Indian imports, but lost ground badly *in the 1960s.*

In the past five years, however, British exports to India have grown at an average annual rate of around 25 per cent a year, and, *in 1981, grew an esti*mated 30 per cent.

With total two-way visible trade estimated at around $1bn in 1981 and invisible exports in the region of *£50m,* Britain is India's third largest trading partner after the USSR and the U.S.

The only cloud on the trade horizon is that the steady increase in British exports to India has turned the trade balance sharply into Britain's favour. And this has been a cause for some concern by the Indian Government.

At a recent seminar in Bombay *on Indian and* British financial links in the 1980s, Mr Pranab *Kumar* Mukherjee, India's Finance Minister and Mr I. G. Patel, the Governor of the Reserve Bank of India, both hinted that this could cause problems between the two countries.

Expansion

A number of British businessmen fear that this may affect the future ability of British companies to win *some of the* major Government contracts likely to be awarded over the next few years.

However, the steel and power *plant* deals coupled with the strong possibility of winning a contract to build a £360m port at Nava Sheva, near Bombay, should see British exports continue to expand at around 20 per cent or more a year for at *least* the next *few* years.

Though no one expects a rush of new foreign capital to come *flowing into the country* from Britain, on the investment and technical collaboration front the outlook appears somewhat brighter than it has been *for many years.*

In 1974, approved British foreign investment jumped to its highest level. Since 1980, the number of collaborations between Indian *and British* companies jumped to 110, almost double the average annual rate over the previous ten years.

Richard Cowper

Festival of India GREAT BRITAIN 1982

Theme of continuity and change

THE Festival of India—the biggest and most comprehensive exposition of India's past and present—is presenting a varied programme in the UK until November, this year.

The theme of the festival, which opened at London's Royal Festival Hall in March, is "continuity and change." It portrays the rich cultural heritage of India, alongside the country's contemporary achievements in science, agriculture, industry and technology.

Among the major exhibitions in London are "The Image of Man" at the Hayward Gallery. For this exhibition, spanning 2,000 years of Indian culture, the exhibits have been brought from every corner of India.

Other events devoted to India's rich past include exhibitions at the British Library, the British Museum and the Victoria and Albert Museum. Scientific aspects of India are displayed at the Science Museum, while special programmes on India's arts and crafts are being held at various leading galleries.

The exhibition The Living Arts, at the Serpentine Gallery, will enable visitors to see craftsmen at work and vividly illustrates the underlying theme of the Festival. Displays relating to present-day India include Vasna—Inside an Indian Village at the Museum of Mankind and Modern Indian Artists at the Tate.

For festival information, telephone 01-930 1350 or 01-930 1444.

There is no easy solution to the insurgency problem in Mizoram, says **K. K. Sharma**

Insurrection festers in the remote North-East

"WE ARE all reluctant Indians," says a highly-placed official in Aizwal, the picturesque capital of Mizoram on the hills bordering Burma. His facial features are Mongol and, like the rest of the 400,000 population of this centrally-ruled Union territory he is a devout Christian.

The tribal Mizos may be divided among themselves and have loyalties of an incredible complexity depending upon the group to which they traditionally owe allegiance. But they share a common hostility to what they obviously consider the alien "Indian" from whatever other part of the country he comes.

To the Mizo, the Indian is represented by the thousands of military and para-military forces who patrol the streets of Aizawl and who escort all senior bureaucrats. None of these forces dare venture outside the capital without the protection of armed soldiers carrying automatic weapons meant for instant use against the small core of insurgents hiding in Mizoram's dense jungles.

The Bara Bazaar in Aizawl is full of shops displaying goods smuggled from Burma. The proud Mizos peddle these without enthusiasm for they have lived in the shadow of insurgency, backed by a drought that has made the population even more dependent on supplies from the mainland.

Rumours in the bazaar are that insurgency will erupt again now that talks with the Mizo leader, Laldenga, have failed in New Delhi and his Mizo National Front (MNF) banned yet again.

Lalgenga left last month for Europe, once again in exile, like several tribal leaders from the north-east.

There have already been some killings by guerrillas and there will surely be more, since the move against the MNF is widely interpreted as hardening of attitudes in New Delhi against the Mizo demand for autonomy. Mizoram is now a union territory, which means it is ruled by New Delhi, although it has a local Chief Minister, Brigadier Sailo, who is opposed to the Mizo demand for independence but enjoys the confidence of few of his fellow tribals.

The Mizo National Front's following is said to be nominal, but it is sufficient for it to extort money from non-Mizo passengers—at Rs 50 per person—coming in buses from Silchar, the point where they are actually issued entry permits for Aizwal, even though they are Indians (no non-Indian has been allowed into Mizoram for more than two decades).

Local officials admit the MNF has a parallel administration and that its writ runs further than the Lt-Governor who represents New Delhi.

Official functions in Aizwal have all the paraphernalia of tight security. A light machine-gun, mounted on a utility vehicle follows the Chief Minister. Senior officials are escorted by armed men of the central reserve police and travel with them in their cars.

Casualties

Security guards are increased when officials go on tour into the interior. No official goes to a picnic without first ensuring that he has his armed contingent of escorts with him. The precautions are essential because insurgents keep a close watch on the Unwar, and there have been many casualties.

There is no easy solution to the insurgency problem in Mizoram because the hard core of the MNF will settle for nothing less than independence, while efforts to integrate Mizoram with the rest of the Union are as unwelcome as they are inadequate.

If anything, the demand for secession has grown and the MNF is now aided by the students' association called the Mizoram Zirlai Pawl (MZP) which is now recruiting a new cadre.

Insurrection festers all over India's remote north-east. Its seven states and Union territories are linked to the mainland through a narrow corridor north of Bangladesh that was easily disrupted by West Bengali students when they launched an agitation, about a year ago, against the treatment meted out to Bengalis in Assam. This is the oil-producing state, troubled by a widespread movement seeking the expulsion of "foreigners"—immigrants from West Bengal and Bangladesh—from the state.

Secessionist voices are heard in most of the states, although they are said to be silent in Nagaland where they first became vocal.

Even in Assam, where the student leaders have held endless rounds of unsuccessful talks with New Delhi on the "foreigners" issue, separatist forces are clearly gaining ground. Certainly, the graffiti testifies to this. And Assam, because of its oil and tea, is economically important to India.

Loss of a year's oil production in Assam from mid-1979 cost the country Rs13bn in foreign exchange. The oil industry is now being operated under the vigil of Central Armed Police and the Army is on call.

The Assamese have an economic weapon they can wield and so the student agitators receive treatment like diplomats in New Delhi when they make their periodical excursions for what are obviously purposeless talks.

They have so far, however, no links with other separatist movements in the north-east where the "extremists" among the tribal population spurn efforts to draw them into what is a euphermal national mainstream.

The result is violence, or the constant threat of it, that is pinning down large contingents of unpopular security forces who are never sure where the attack will come from.

In quaint Manipur for instance, official claims that the law and order situation had "considerably improved" were easily belied when just three weeks later, 21 soldiers were killed in an ambush by a "People's Liberation Army."

The "extremists" have obvious popular support. A recent jail-break in Imphal, capital of Manipur, in which 44 "hard-core PLA extremists" escaped, could hardly have been possible without the support and connivance of local officials.

Concessions

There is no real effort to win over the activists. The enormous concessions given to the region (north-eastern states, like others in the Himalayas, qualify for special treatment in the matter of grants) have benefited mostly the politicians and contractors, or so is commonly believed in the north-east.

There is an inexplicable degree of support that movements in the north-eastern states receive from even well-placed and outwardly loyal people who profit from the political and administrative set-up and the largesse from New Delhi. In Imphal, senior bureaucrats, posted there from outside the state, speak bitterly of policemen, jail officials, civil servants, and even Congress (I) legislators and accuse them of secreting illegal weapons and helping the guerrillas.

The truth is that there is no meeting ground. New Delhi can hardly consider the separatist demands without jeopardising the basis of the Indian Union while offers of more autonomy and more economic assistance are unacceptable to the extremists. If their strength is declining—and there is no evidence that it is, even though New Delhi wants to believe this—it is partly because they no longer receive training and support from China, as in the past.

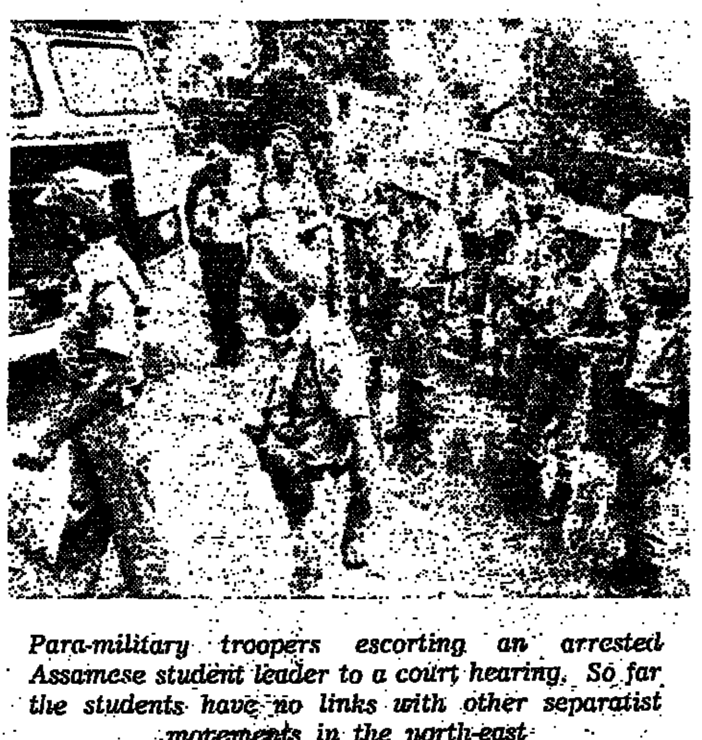
There are many "moderates" which New Delhi hopes will eventually gain ground in such states as Mizoram and Manipur, but certainly there can be no peace without the consent to any agreement of the extremists.

As the Mizo leader, Laldenga, said recently: "After all, they have shed their blood in our cause. We will have our differences but the cementing force in north-east India will be provided by common leaders. That leadership has already been trained in China."

Indeed, what Laldenga says could well show why the north-east is in ferment and explains the failure of leadership from New Delhi.

"Let me tell you something," says Laldenga. "When I took the first batch of Mizo boys to China for training we were received by a group of Chinese men and women who spoke to us in our own language, sang our songs and gave us typically Mizo food.

"There was no need for interpreters in our camp. But Indians come to Mizoram and can't communicate with our people. What kind of integration is that?"



Para-military troopers escorting an arrested Assamese student leader to a court hearing. So far the students have no links with other separatist movements in the north-east

HINDI is the official language of India and English has the status of "associated official language." The country's 22 states have their own languages, although six use Hindi.

The Constitution recognises the 14 languages listed below. The states have adopted a three-language formula and use Hindi, English and their own local language for official and education purposes.

Assamese	9.0m
Bengali	44.8m
Gujarati	25.9m
Hindi	162.6m
Kannada	21.7m
Kashmiri	2.4m
Malayalam	21.9m
Marathi	42.3m
Oriya	19.9m
Punjabi	16.4m
Sindhi	1.7m
Tamil	37.7m
Telugu	44.8m
Urdu	28.6m

Impatience over lowly status continues to grow among the rural Harijans

The plight of 100m 'Untouchables'

BIRAJIA DEVI, 50, thinks that, as an "untouchable," she is better off barely subsisting on the outskirts of Patna than she was in her native village 80 kilometres away.

At least the capital of Bihar, a Ganges valley state and one of India's most backward, offers some chance of work and some respite from the degredation and violence that can afflict untouchables like her out in the countryside.

She is one of 100m scheduled caste people (the bureaucratic term for untouchables), making up about 15 per cent of India's population.

These people are the worst victims of the Hindu caste system's rigid divison of labour. The most demeaning jobs, such as carrying night soil, tanning leather and washing clothes supposedly made those workers unclean and unfit to be touched by their superiors. In the Hindu concept of purity and pollution—the yardstick of rank—they are at the bottom.

Untouchables were shunned as the lowest of the low, avoided lest they polluted their souls. They led, and still often lead, a life apart from the rest of Hindu society, segregated and oppressed by humiliating practices such as having to walk barefoot in the presence of higher castes.

Some 50 years ago, Mahatma Gandhi started the enormous task of integrating the untouchables into Indian society. He called them Harijans, children of God.

Backlash

Government actions to improve the lot of the scheduled castes include reserved places in education, as well as in Government jobs and in Parliament. Some 78 seats out of 542 in the Delhi Parliament are kept for them.

Reservation inevitably causes a backlash. Last year, in Gujarat state, students demonstrated violently against the earmarking of half the state medical school places for scheduled castes. Any unclaimed places from previous years are carried forward.

The number of post-matriculation scholarships available to scheduled castes in India was about 682,000 in fiscal 1982, against only 200 in 1947.

Education has worked also at a more basic level. The 1931 census found that only 1.9 per cent of Harijans and 9.5 per cent of the total population were literate. The rates were 14.7 per cent and 29 per cent respectively by 1971.

Some Harijans have scrambled up from the bottom of the pile, mainly through education or urbanisation, to achieve personal success. One such man is Mr Jagjivan Ram who rose to become Deputy Prime Minister in the Janata Government which overthrew Mrs Indira Gandhi in 1977.

He is out of power now, but he still attracts a following. On many an evening you can find small groups of people on the spacious, shady lawns of his Delhi bungalow, discussing all manner of subjects.

For all his political success, however, his background has denied him equivalent social status, he says. It is hard for a member of the scheduled castes to go through a day without being reminded of his origins.

He tells of how a lowly peon in Government service might clear away all the tea cups from a meeting of senior officials and politicians, but "forget" those used by a schedule caste.

In theory, such blatant untouchability was outlawed almost 30 years ago. Certainly, the most degrading practices have largely disappeared. But so deeply rooted are the myths and superstitions of untouchability that the effects endure, if in more subtle form.

Even a well educated cosmopolitan Brahmin might tactfully decline to eat with his son's family because its cook is a Harijan. Similarly, a deeply religious Hindu could bath in the sacred — and dreadfully polluted—waters of the Ganges and yet still refuse a glass of tap water from a Harijan.

Generally speaking, untouchability endures most strongly in rural areas. Fully 80 per cent of Harijans live in the countryside and 80 per cent of them live below the povery line versus 50 per cent for the total population.

One reason for their economic depravation is their lack of land which applies to about 40 per cent of them, according to the Gokhale Institute of Economics.

Land transfers to Harijans and other fights over property is one of the main sources of communal violence, which has soared in recent years. Harijans have become more aware of their rights and less willing to suffer their lowly status. In the most conservative areas they are still refused access to temples and tea rooms, and are forced instead to use separate wells. Many are still segregated in Harijan bastis on the edges of villages.

Some 375 scheduled caste people were killed in 1980, compared with only 36 in 1977. The number fell last year, but it included some massacres involving a dozen or so Harijans at a time. One of the bloodiest was just north of Patna.

Death tolls may have been lower, but the number of rapes, assaults and other atrocities have risen. Undoubtedly, many more incidents go unreported because people are cowed by landowners or cynical about the police's frequently cozy relations with powerful community leaders.

In theory, the solutions and processes for change are clearly laid down.

"We have an absolutely fool-proof set of circulars from the Government—it is only a question of implementing them," said a senior Bihar civil servant, echoing the sentiment of sympathetic officials across the country.

"If anybody tries to do anything for the Harijans, he is accused of being a Naxalite (Communist), and transferred."

Undermined

Too often, he added, programmes to aid Harijans are directly overturned or indirectly undermined by dominant castes' continuing ability to rally support for the status quo from those fearful of losing out under reforms.

The escape for some Harijans is religious conversion. One of the most noteworthy was of Dr D. A. Ambedkar, chairman of India's constitutional commission. He shepherded the constitution, which contains many safeguards for scheduled castes, through parliament. A few years later, in the mid-1950s, he became a Buddhist.

Birajia and some of her neighbours chose to seek the partial relief in city life, coming to Patna six years ago.

She and 500 Harijans live in a collection of mud hovels squezed between a lane and an irrigation canal. Urban sprawl has steadily encroached and they are threatened with eviction because the state plans to build a medical institute at the end of the lane.

These Harijans can earn Rs 8 to Rs 9 (just under $1) a day on the few days a week they are lucky enough to find work. The arbitrary poverty line is Rs 65 per person, per month. (Rice costs Rs 3 a kilo.) Birajia said she and her friends are, nonetheless, better off than they were in their village.

Harijans seem able to accept the rate of integration in towns, but India is a predominantly rural society. As impatience over status quo continues to grow among the rural Harijans, so, inevitably, does the threat of communal violence.

Roderick Oram

Left: Birajia Devi who fled her village to avoid degradation and violence and (above) 'untouchables' lucky to find some menial task

CHINA'S ECONOMY

Trying the middle way

By Colina MacDougall

CHINA'S ECONOMY looks healthier and more settled than it has for a long time as it pulls out of a nosedive caused by deliberate retrenchment last year. Provided the weather is kind and Peking can maintain its cautious reflation policy (two big ifs), this year's prospects are not bad. But the future is still under a cloud, threatened by an ageing and inadequate heavy industry and population growth.

Since the late 1950s China has swung between rival economic policies. In Mao's 1958 Great Leap, the country concentrated on producing more grain, steel and machinery. Then came the moderate early 1960s, with more economic freedom and more stress on the consumer.

With the Cultural Revolution in 1966 the pendulum swung back to grain and steel production. In the 1970s, the view broadened to include more diverse industries, but not until Mao died in 1976 was ideology gradually shelved to allow less rigid control of the economy.

But China's economic troubles were not over. Too much stress on heavy industry in 1977-78 meant fearsome shortages of energy and raw materials, while for the first time China became a victim of inflation. In response, the leadership in 1979 began to clamp down on investment, ending with a drastic squeeze last year which almost paralysed heavy industry.

Only now is China beginning to identify its problems correctly and deal with them systematically. Such was the message of the key economic reports delivered last month at the National People's Congress Standing Committee by Yao Yilin, in charge of planning and one of China's crucial economic figures, and Wang Bingqian, Minister of Finance.

China now seems to be attempting a middle way, with cautious and controlled investment in heavy industry and a tighter hold on the freebooting light industries which have blossomed in recent years.

The heavy industries which really need investment now look like being the ones to get it. By Yao's reckoning, the problem industries are energy and transport. Coal and power are this year scheduled to increase their output, and though the oil target remains the same as last year, the growth of the offshore industry will mean new investment.


Tang Ke (left): gets an important job; Prime Minister Zhao Ziyang: reputation is enhanced

Steel, which has soaked up millions of dollars in the past, is to cut output by 1.5m tonnes but to concentrate on quality and variety.

The impression the traveller gets today of an improving lifestyle across China was underpinned by Yao's figures for 1981. National income—the nearest thing in a communist country to GNP—rose 3 per cent, and industry and agriculture together at 4.5 per cent. The 4 per cent growth target for this year will probably be exceeded (the first quarter's results were good).

But last year's midly creditable result emerged from averaging out some steep peaks and troughs. Grain output provoked concern by hardly rising, whereas cash crops like sugar and oil-bearing plants shot up by 20 to 30 per cent. This year the grain target has been set much higher, optimistically in view of the present north China drought.

Light industry, which last year got priority in resources, did even better than farming, especially in desirable consumer items. This helped trade, which last year was almost in balance (observers in Hong Kong maintain that China would have shown a surplus had it used conventional accounting methods).

But last year's mildly credit bad news. Output fell by an overall 4.7 per cent, and by a staggering 66 per cent in the all-important power generating equipment sector.

To halt the decline, this year Peking is setting aside $17bn—nearly a quarter of total expenditure—for selective modernisation. Taking last year's World Bank recommendations to heart, they plan to renew boilers and reduce energy waste.

Perhaps most threateningly, China's population growth rate is rising. At 1.4 per cent last year's growth was higher than planned and higher than the previous year.

Just coming on to China's marriage market are products of the baby boom of the mid-1960s. At the back of every Chinese planner's mind looms the nightmare that no matter what benefits they bring to the economy, the growing numbers will gradually devour them.

Shake-out for bureaucrats

FOR Deng Xiaoping, the consummate Chinese politician, the months of April and May this year must have been particularly satisfying. Mr Deng, who is known to use bridge-playing metaphors on occasions in private, would probably agree that he and his supporters have achieved at least a "small slam" in their efforts to reform the central bureaucracy to make it more responsive to the demands of new economic policies.

For years the proliferation of officials and committees, plus the increasing number of aged bureaucrats who, for lack of a retirement system, could not be put out to grass, has endlessly delayed the decision-making process.

Not until this year has Deng Xiaoping been strong enough to challenge entrenched interests. He has now made massive changes which should streamline the government structure.

The bureaucratic changes have seen a further strengthening of Dengist control over the country's central administration. The wider implication of the reforms is that moderately progressive economic policies now in force should be secure for the time being.

Mr Deng's proteges and associates of his proteges now occupy most of the significant positions in the central party and state bureaucracies. Changes to the party's central structure, announced last weekend, confirm the trend towards Dengist dominance of positions of power in Peking.

Zhao Ziyang, the premier, comes out of this round of bureaucratic changes with his reputation enhanced. Mr Zhao has done well in his first year as premier and is regarded as a man who is prepared to act decisively. The nuts and bolts of the administrative changes are largely his doing.

The changes to the state bureaucracy have resulted in a quite significant reduction in the numbers of ministries and commissions—from 52 to 41—and the removal of much aged dead wood. Mr Zhao has pointed out that the average age of ministers and vice ministers in the central bureaucracy has fallen from 64 to 58 and the number of heads of bureaux and departments has been reduced from 2,450 to 1,398.

An indication of the change in the bureaucracy over the past several years, most particularly over the past two months, is that of the 41 Ministers under the State Council only a small handful, two or three, hold the same positions as they did before the decisive Third Plenum of the Chinese Communist Party when Mr Deng began reasserting his influence after his rehabilitation the year before.

The reduction in the number of ministries has been achieved by merger and abolition. Perhaps the most sweeping changes were effected in the cumbersome machine building ministry apparatus, the central core of China's industrial strength.

The ministries, previously simply numbered the First Ministry of Machine Building, the Second Ministry of Machine Building, and so forth up to seventh have been renamed according to function.

Thus the Second Ministry of Machine Building becomes the Ministry of the Nuclear Industry, the Third the Ministry of Aviation Industry, the Fifth the Ministry of Ordnance and the Seventh the Ministry of the Space Industry. The name changes plus administrative reshuffles are intended to give a sharper focus to their activities.

The Sixth Ministry of Machine Building has disappeared altogether and in its place the China State Shipbuilding Corporation has been established to oversee all aspects of the industry. The First Ministry of Machine Building has been merged with the Ministry of Agricultural Machinery to form the Ministry of Machine Building Industry.

The State Economic Commission, previously part of the planning system, has been given a much enhanced umbrella status, taking on the roles of the State Agricultural Commission, the State Energy Commission and several other organisations.

In the same way, the new Ministry for Foreign Economic Relations and Trade has taken on the functions of the old Ministry of Foreign Trade plus a supervisory role for foreign investment.

There is one curious choice among the new ministers. Tang Ke, formerly Minister of the Metallurgical Industry, has been switched to Minister of the Petroleum Ministry, an important job in view of China's impending offshore development.

Observers believe Mr Tang was not regarded as a success in his previous task as his name was associated with the Baoshan steelworks project, which was much criticised within China for its poor planning and expense.

Tony Walker
in Peking

Lombard

Thinkers and doers

By Michael Dixon

SOCIETY'S LEADERS once assumed that nature intended mankind to be split into peasants who earned wealth and gentry who spent it. Nature's disagreement was shown by the Black Death, a shift in economic power to the depleted peasantry, and bloody revolt.

The parallel assumption today is that there is a natural division of labour between thinkers and doers. The thinking minority is born with ability to organise work whereas doers are born to follow instructions.

The origin of this split in the manufacturing workforce was evidently the meeting of the inventors Henry Maudslay and Joseph Bramah in London in the year of the French Revolution. Bramah's greater strength was economic vision. He saw that his newly patented lock gave an improved security guaranteeing huge sales if the price could be kept down by making the lock's various parts separately in batches and assembling them later. But human skill could not machine batches with the consistent precision required for the lock to work properly.

It took Maudslay's sharper engineering insight to fulfil Bramah's plans. Maudslay invented the slide-rest which enabled lathes to be operated automatically with an accuracy no hand-held cutting tool could attain.

The transfer of control from operator to organiser fed and grew on markets for mass-produced products. The split also suited early developments in computer-controlled manufacture. A bank of machine tools obeying a central programme could produce more intricate components more precisely than ever before. And micro-processors and robots are widely viewed as advancing the same technological evolution which must increasingly consign mere doers to the dole.

But signs that nature is again disagreeing were noted in a recent report (discussed in this column on April 16) from the International Management Institute in Germany and the Henley Management School. Advanced industrial countries, the report pointed out, were increasingly at a cost disadvantage in the manufacture of mass-produced goods. Their best prospect may lie in the manufacture of complicated machines in small batches, requiring frequent switches of machine tools from job to job. Microprocessors have enabled the tools to be controlled electronically, not in banks, but individually by their own built-in computers. Besides extra flexibility useful for batch-production, this development allows operators skilled both in programming and in judging the niceties of the job in hand to improve on the quality the computer could produce unaided.

It has therefore become possible to reverse the shift begun by Maudslay's slide-rest. Just as that invention freed machinery to attain unprecedented precision, the chip has freed human skills to reach finer quality still. But its achievement would require the functions of thinking and doing, now separate, to be put together again in the person at the machine.

Unfortunately the British education system largely ignores practical intelligence. Aptitude and interest in learning theories give children the opportunity later of acquiring the specific skills of an activity such as engineering. Children whose aptitudes and interest are in learning by doing have less and less opportunity to advance in such an activity, and later to acquire the specific theories entailed.

Last week the Government unveiled its plans for a new 17-plus qualification, designed for children unsuited for academic examinations; it would follow a year's practical work at the end of 11 years of compulsory schooling. But this can only treat symptoms. The discovery and development of talents for doing need to start at a much earlier age.

Both Joseph Bramah and Henry Maudslay left school as soon as they could to pursue their interest in doing, which later fuelled their interest in learning the theory their ambitions required. Today they would more probably be just two of the many young people so demoralised by 11 years of failure in academic education that they have lost any productive ambition at all.

Letters to the Editor

Economics of competition on domestic air routes

From the Chairman,
British Caledonian Airways.

Sir,—May I be permitted to comment on the leading article of May 20, "An unnecessary monopoly," since I believe the views expressed to be misleading and dangerous.

British Caledonian supports the concept of competition but vigorously opposed British Midland Airways application when it was the subject of a public hearing before the Civil Aviation Authority, the expert body whose task is to determine economic regulatory issues in UK civil aviation.

BMA appealed from CAA refusal of licences and it is now for Lord Cockfield to determine what is a matter of vital importance to the UK civil aviation industry and the travelling public on the major domestic air routes.

British Caledonian has operated to Glasgow and Edinburgh from Gatwick since 1966 and believes there is plenty of competition already, not only between BCal and British Airways and between Heathrow and Gatwick but also between surface transport and air. The CAA acknowledges that the routes have a history of losses and believes that BMA will also lose money; indeed the CAA concluded that there is a strong likelihood that all three carriers (BCal, BA and BMA) will be gravely weakened.

The air transport industry is facing a difficult period and it is folly to have competition merely for the sake of competition. In the U.S. the example quoted, the experience of deregulation has been mixed, many places have lost service, many fares are now substantially higher and the U.S. air transport industry is currently estimating loses of $1bn this year.

Your article refers to BMA as a low overhead airline, yet CAA found BCal's costs comparable to BMA's and stated that fares must reflect costs if they are to be durable. Your article stated that the public has nothing to lose. This manifestly is wrong as passengers holding Laker and Braniff tickets know to their cost. If BMA is licensed, BCal will compete vigorously but we are already losing well over £2m per annum on these routes and, although this is balanced by the benefit of feed on to our longhaul services, if losses increase there is a risk that services would have to be reduced or withdrawn, leaving Gatwick without services to these Scottish cities.

If it is necessary for BMA to fail before it can be accepted that the routes are adequately served, then CAA is redundant. Surely CAA's warning of a weakening to all carriers is one that may not be ignored.

Adam Thomson,
British Caledonian Airways,
Caledonian House,
Crawley, W. Sussex.

Social acceptance of new technology

From Messrs. D. Parrish and C. Painter

Sir,—Developments in technology are directed towards the reduction of human involvement. Computer-controlled machines will eventually manufacture and assemble complete products. There appears to be no limit to what can be achieved. New technology will inevitably lead to the unmanned factory.

To reflect the flexibility of such automated systems the human response must be inclined towards flexible hours, manning and labour systems.

Even the ultimate unmanned factory will, however, require some human contribution. New products will still need to be conceived. Factories will still be required. Even when computers are running computers, the original program will still need to be compiled, tested and input to data banks. The human element might only be that contributed by a computer programmer or the hand that presses the start button, but that hand will still be there.

With such a prospect what stance should unions adopt? Their approach must be to welcome all new advances and with them the benefits. No union should seek to resist any technology that frees people from work that could be performed by machines.

They must, however, be prepared to fight to ensure that the result of this second industrial revolution is a social manufacturing system (SMS) that benefits the whole of society.

Unions must re-analyse the entire work ethic. Should a person who sits and presses buttons be paid more than the person who performs socially necessary community work? The unions must make certain that there is useful employment for all and that for it they receive a fair share of the wealth.

People must be retrained for the new automation. New technology must be viewed as freeing people from the production process rather than causing unemployment. This cannot mean a descent into idleness but freedom to perform those social tasks now carried out by unpaid volunteers. New technology will produce the wealth whereby those carrying out such tasks can be adequately rewarded.

The advance of technology should be at the pace and direction agreed by unions and managements. The application of technology should always be socialistic and any system for the manufacture of products that eventually prevails should be socially acceptable, ie, SMS.

D. J. Parrish.
C. W. Painter.
Thanet, Mill Lane,
Woolpit, Suffolk.

Current cost accounting

From Mr A. Tomkinson

Sir,—In his letter of May 18, Professor Myddelton claims that "current purchasing power accounting is a system of accounting for inflation," whereas it would surely be more accurate to say that it is a system of accounting for general inflation, the difference is crucial and lies at the heart of this aspect of the inflation accounting debate.

For all its undoubted shortcomings, current cost accounting does at least attempt to provide management and investors with a measure of the impact on a company's operating capability of changes in prices which are specific to its business. Should we really abandon such a system for one which, by using the Retail Price Index, would adjust historical cost accounts for (*inter alia*) changes in the level of mortgage repayments and tube fares?

Alan Tomkinson.
216, Chiswick Village,
Chiswick W4.

Paying interest on a non-existent day

From Mr G. Atthill-Beck

Sir,—It is now nearly nine months since the advent of same-day value dollar payments in New York. Certain powerful houses in London, leaders in an important and growing sector of international finance, still find it expedient to ignore the changeover from next-day to same-day funds to their considerable advantage.

Interest bearing Eurodollar bonds are issued with annual coupons calculated on a 360-day base, and are initially sold in the primary market, often through an intermediary such as a stockbroker, bank or licensed dealer.

Before October 1981, the lead managers who fix the terms of new Eurodollar issues used to tack on an extra day's interest in front of the date from which the first coupon began accruing, to cover themselves and their co-managers for the fact that although the purchaser paid his money on day X, the seller did not receive the benefit of the payment until day X plus one.

One might therefore be forgiven for assuming that as a seller now receives the benefit on day X, of a payment made on day X, the purchaser of a new Eurodollar issue would be required to pay only for the number of days' interest which have already accrued and which he will ultimately receive from the borrower on the first anniversary of the maturity date. On the contrary, most major issuing houses persist in the now wholly unjustifiable practice of extracting the additional day's interest described above, which means that investors are effectively paying for an instrument which carries yearly interest as if it carried a year and a day's interest in the first year.

Investors in the Eurobond market are mainly sizable institutions with many millions under management, so when they buy new bonds they buy large, and one day's interest is not a nugatory sum which can be written off as if it did not exist. This applies a fortiori to lead managers, who may be bringing out $200m at a time. If brokers or dealers protest on their clients' behalves or simply refuse to pay for the additional day, they are told: "Either you deal on our terms in this market or you don't deal with us at all." Implicit in this attitude is the dangerous assumption that "muscle" can choose to ignore a changed system irrespective of whether it is wrong to do so, and irrespective of the new system's universal application.

Graham Atthill-Beck.
22, Woodgrange Avenue, W5.

Aveling Barford cuts loss

DESPITE world-wide over-capacity creating intense pressure on margins, rationalisation programmes and actions to improve efficiency during 1981 *have brought a 51 per cent* reduction in the year's trading losses, before extraordinary items, from £4.9m to £2.4m, at the BL construction equipment subsidiary Aveling-Barford. Turnover remained roughly *unchanged* at *£29m, compared* with £29.1m.

The second year of the *company's recovery programme* has continued to be affected by the recession, but Mr Roger Lockwood, managing director, *says that while he sees no short-term* increase in demand he anticipates that actions already taken together with further rationalisation will restore the company to profitability within the third year of the programme.

During 1981 asset management programmes showed "significant success" with the generation of a net positive cash flow in excess of £3m.

The company's UK base was severely constrained by lack of *private sector* investment and by central and local government expenditure controls. Additionally financial instability in much of the third world, *political* uncertainty in areas of the Middle East and a deepening recession in Europe, eroded large traditional *markets for the* company's products.

Benlox pref. rights: pays 0.5p dividend

Benlox Holdings, the *building* contractor, is making a rights issue of 936,000 8 per cent convertible cumulative preference shares of £1 each at par, on the basis of one new preference share for every five ordinary held.

The directors have irrevocably undertaken to take up in full the 95,400 preference shares to *which they are entitled. The* balance of the issue has been underwritten by Dawnglen Finance, a company controlled by Mr M. A. C. Buckley, the chairman.

The company has also announced that trading profits rose to £48,218 for the 10 months accounting period to end 1981, compared with £34,390 for the *previous year. The dividend is* unchanged at 0.5p net per 10p share.

Turnover for the 10 months *increased to* £1.45m *(£0.72m for year)*. There was a tax credit of £9,000 (£3,000 charge) and minorities this time of £3,510. Extraordinary debits decreased from £61,346 to £35,050.

Stated earnings per share were *higher at 1.15p (0.67p)*.

Oriflame sees further growth

Oriflame International, a Luxembourg-registered cosmetics group, is to raise £5.2m by an offer for sale of its shares. The group's main activity is the manufacture and sale of its own brand of cosmetics via a network of direct sales agents. About 37 per cent of group sales in 1981 were made in the UK.

Since its formation the group has prepared its accounts in U.S. dollars and will continue to do so. Oriflame's shares are not listed on any other stock exchange.

The directors forecast in the prospectus that profits before tax, in the year to December 1982 will be approximately $6.75m ($3.84m) and earnings per share $1.16 ($0.97).

The offer, made by Morgan Grenfell and Blyth Eastman Paine Webber consists of 886,634 shares of $1.50 at 600p a share—16.25 per cent of the issued capital after the offer—capitalising Oriflame at £32m. Brokers to the offer are de Zoete and Bevan.

The application list will be open from 10 am on Thursday May 27. Application will be made for the shares to be listed on the Stock Exchange. Dealings are expected to start on June 3.

● comment

Oriflame has made an appreciable success of adapting the party-plan method of direct selling (pioneered by Tupperware) to the distribution of cosmetics. Accounting in U.S. dollar terms —though little of the company's trading has so far been conducted in that currency — the 1982 profit forecast would bring *Oriflame's five year growth* rate to a healthy 35 per cent. That goes a long way to justify an issue price which capitalises the group at 4¼ times its net assets, and is equivalent to 9.4 times forecast earnings. The growth *may be getting a bit harder* to sustain now that some of Oriflame's original Scandinavian markets are fairly mature, but its share of the UK market—its largest—is still only about 2 per cent. So there is probably room *for expansion here as well* as in new areas such as the Far East. A possible drag on profits, however, may result from the *planned purchase (for $1.6m)* of an as-yet unprofitable U.S. associate company. A feature of the issue which may prove attractive is the availability of bearer shares, on which dividends are collectable in dollars: UK *registered shareholders are* to get their remittances in sterling, net of tax.

Myson earning power 'unimpaired'

While the assets of **Myson Group** was severely eroded during 1981, with capital and reserves falling from £11.9m to £4.6m, the earning power of the *group has not been impaired* and the balance sheet now reflects a "lean and clean" situation on which to build, Mr R. A. Wheeler, chairman, says in his annual statement.

As reported on May 8 this heating and ventilating equipment manufacturing group increased taxable losses from £3.43m to £7.12m in 1981 and omitted *dividend payments*.

During the year Barclays Bank "enabled the group to continue trading" by subscribing £3m by way of preference capital and by restructuring its facilities into a 10-year loan of £10m and an over*draft of £5m*. The auditors point out that the accounts have been prepared on the basis that the group's bankers continue to provide facilities on existing terms for the foreseeable future.

As a result of the decline in capital and reserves the ratio of borrowings permitted under Myson's articles have been exceeded and an EGM is being *held to* vote on increasing the borrowing limit.

Looking to the current year Mr Wheeler says the benefits of price increases, cost cutting and other savings began to emerge in the first quarter and a significant profit was made after interest.

The second and third quarters have historically been quieter periods for most group companies with improved trading in the last quarter. The outlook continues to show promise he says.

Meeting: 100 Old Broad Street, EC, June 11, 11.00 am.

Construction Holdings

Taxable profits of investment trust **Construction Holdings** advanced from £96,147 to £101,452 in the first half to March 31, 1982.

The interim dividend is being raised *from* 5.6p to 5.95p net per 20p share, with earnings per share stated higher at 7p (6.6p). Last year a total distribution of 12.6p was paid from taxable profits of £192,968 (£193,140).

Income in the second should be maintained the directors say.

Hambro Life funds up by £300m

Total funds of **Hambro Life Assurance** rose nearly £300m last year to £1.35bn. Premium income climbed by one-third to £320m, while investment income improved 15 per cent *to £104m*. However the increase in the value of investments last year was only £56m against £104m in the previous year. Claim payments topped the £100m mark for the first time rising 4 per cent to £102m. Commission payments were 30 per cent higher at £37m.

As already reported, the actuarial surplus last year in*creased nearly 20 per cent to* £16.76m of which £15.1m was transferred to profit and loss.

The report shows that the company's managed *fund*, one of the first in the field, now stands at more than £400m, while its property fund has assets of over £330m. Pension funds within the company now total £500m and the company's executive pension plan for controlling directors and key executives has become a market leader.

BOARD MEETINGS

TODAY

Interims—Bluemel Brothers. Coselt. North British Steel.

Finals—Associated British Steel, Cakebread Robey, Lanca, Toshiba, Zygal Dynamics.

FUTURE DATES

Interims—	
Dundee and London Inv Tst	June 16
English China Clays	June 17
Johnson and Firth Brown	June 11
Kitchen (Robert) Taylor	June 8
Smart (J.) (Contractors)	June 3
Finals—	
Bremar Trust	May 26
De La Rue	June 2
Nippon Electric	May 27
Prince of Wales Hotels	May 27
Rowlinson Securities	June 3
Samuel (H.)	May 26

FT Share Information

The following securities have been added to the Share In*formation Service*. **Cass Group** (Section: Electricals). **Leisure Industries** (Leisure). **Nabisco Brands** (Foods). **Toshiba** (Electricals).

SPAIN

1982 High	1982 Low		May 21 Price %
359	335	Banco Bilbao	343
362	320	Banco Central	320
324	302	Banco Exterior	302
337	306	Banco Hispano	314
115	110	Banco Ind. Cat.	114
357	315	Banco Santander	324
235	197	*Banco Urquijo*	197
395	355	Banco Vizcaya	355
248	216	Banco Zaragoza	248
180	127	Dragados	140
69	63	Espanola Zinc	68
65.2	58.2	Fecsa	63.7
50	32	Gal. Preciados	32
68.2	61.7	Hidrola	64.5
59	50	Iberduero	52
104.5	*85.7*	*Petroleos*	*87.2*
101	94	Petroliber	99
40	5.50	Sogefisa	6.0
74	69	Telefonica	70
68	62.5	Union Elect.	65.2

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. Date	1982 High	1982 Low	Stock	Closing price p	+ or —	Div. p or amount	Times Covered	Gross Yield	P.E. Ratio
140	F.P.	14/5	170	140	AIM Group 10p	165	—1	bd5.75	1.9	5.0	14.9
*250	—	23/6	270	265	Assoc. Heat Services	270	......	b9.0	2.1	4.8	13.7
90	F.P.	—	96	92	✤Black(Michael) 20p	96	+2	u3.0	2.4	4.5	13.3
15	F.P.	15/4	32	19	Cambrian & Gen.7½p	29	......	—	—	—	—
§260	F.P.	4/6	375	293	✤Cont. Microwave	355	......	b5.25	3.9	2.1	13.2
60	F.P.	28/5	62	59	✤DeBrett(Andre) 10p	60	......	b2.5	2.1	6.0	11.4
§102	F.P.	—	135	123	Dew (George)	125	......	g5.7	4.0	6.5	5.8
§130	F.P.	28/5	151	140	✤Druck Hldgs.	150	......	b2.3	2.5	2.2	26.0
§87½p	F.P.	25/6	98	88	El'tro-Pr'teCpUS$0.50	90	+2	uQ1.5c	6.5	0.9	12.1
—	—	—	17	10	Gr'p Inv Option Crts.	15	......	—	—	—	—
§250	F.P.	14/5	250	245	✤Io Technology	245	......	—	—	—	—
‖‖	F.P.	—	278	260	✤Jebsens Drilling	262	+2	b17.5	2.3	9.5	6.5
136	F.P.	13/5	141	133	Standard Secs.	133	—1	b2.8	1.2	3.0	39.9
¶¶	F.P.	—	90	60	Zambia Cons Cpr 10K	70	+10	—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1982 High	1982 Low	Stock	Closing price £	+ or —
§99.893	£25	14/7	25	21½	Cred. Foncier de France 14¼% Lon.2007	25	+¼
*100	*£10*	*1/7*	*12½*	*11½*	*East Anglia Water 9% Red. Prf. 1987*	*12¼*	......
¶¶	F.P.	—	136	136	First Nat. 12½pc Conv. Uns. Ln. 1987	136	......
*100	F.P.	—	47	39	Grt. N'rth'n Inv. 4pc Net Cum. Prf. £1	47	......
*100	F.P.	—	46	45	Do. 4.7pc Net Cum. Prf. £1	46	......
*100	£10	—	11	11	Mid-Southern Wtr. 9% Pref. 1987	11	......
‡100	F.P.	—	100⅞	100¹⁄₁₆	Nationwide Bdg. Soc. 14¼% (25/4/83)	100⅛	......
‡100	F.P.	—	100	99⅞	Do. 13⅞% (23/5/83)	99⅞	......
*107	F.P.	29/4	113½	109½	Queens Moat 10½% Cnv.'89-91	112	......

"RIGHTS" OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1982 High	1982 Low	Stock	Closing price p	+ or —
10	F.P.	27/4 28/5	13¾	10½	*Ansbacher (H.) 5p*	10½	—1
170	F.P.	13/5 24/6	190	180	Bank Leumi (UK) £1	185	......
125	F.P.	21/4 28/5	161	136	Beazer (C. H.) 10p	159	......
A$1	Nil	24/5 7/6	16½pm	2½pm	Bond Corp.	7pm	+4½
135	Nil	28/5 9/7	44pm	23pm	Carless Capel 10p	23pm	—1
20	F.P.	30/4 28/5	66	40	Fisher (A.)	43	—2
5	F.P.	10/5 21/6	6	5	Grovebell (5p)	5	......
10	Nil	—	12½	10	Hallam, Sleigh & Cheston	10	......
500	F.P.	20/5 18/6	590	575	Hammerson Prop.	580	......
500	F.P.	29/5 18/6	575	530	Do. A	535	+5
120	F.P.	7/5 4/6	169	144	Lilley (F.J.C.)	170	......
145	F.P.	12/5 7/6	187	176	Low (Wm.) 20p	176	......
18	Nil	21/5 4/6	14pm	3pm	North Kalguri	5pm	......
27	F.P.	29/4 27/5	29½	26½	Queens Moat	28	—½
98	F.P.	16/4 4/6	107	*99*	*Riley Leisure*	104	......
170	F.P.	14/5 11/6	284	272	Steel Bros.	242	......
10	F.P.	24/3 23/4	12½	10½	Sturla 10p	11½	+½
133	F.P.	10/5 10/6	160	146	Vickers (£1)	148	—2

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimate. *d* Dividend rate paid or payable on part of capital: *cover based on dividend on full capital. g Assumed dividend and yield.* ‡ Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. *u* Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1982. *Q Gross. T Figures assumed.* ● *Figures or report awaited.* ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price. *p* Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." **Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or take-over. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ✤ Unlisted Securities Market. ‡‡ London Listing. ‡ Effective issue price after scrip. † Formerly dealt in under Rule 163(2)(a). △ Issued free as an entitlement to ordinary holders.

THE TRING HALL USM INDEX

122.5 (+0.3)

Close of business 21/5/82

BASE DATE 10/11/80 100

Tel.: 01-638 1591

LADBROKE INDEX

Close 557-562 (+5)

PENDING DIVIDENDS TIMETABLE

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the *following table. The dates shown are those of last year's* announcements except where the forthcoming board meetings (indicated thus*) have been officially published. It should be emphasised that dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*AE	May 27	Interim nil	*Johnson and Firth Brown	June 11	Interim 1.3
*Allied Lyons	June 2	Final 3.0	Johnson Matthey	June 17	Final 6.5
*Allied Irish Banks	May 26	Final 4.5	*Kenning Motor*	June 18	Interim 1.75
*Assoc British Foods	May 24	Second int 2.6	*London O'seas Freighters	July 14	Final 1.072
*Avon Rubber	May 26	Interim nil	**MEPC*	*June 1*	*Interim 2.0*
BPB Inds	June 24	Final 5.0	*Marley	June 2	Interim 1.0
Baker Perkins	June 25	Final 3.0	*Metal Box	June 7	Final 6.51
*Bass	June 8	Interim 2.53	Norcros	June 25	Final 3.56
Bath and Portland	June 5	Interim 2.0	*Northern Foods	June 10	Interim 1.8
*Scots	May 27	Final 4.625	Pegler-Hattersley	June 10	Final 5.5
British & Com Shipping	June 18	Final 7.0	*Pilkington Bros.	June 11	Second int 5.5
Brown Shipley	June 11	Final 7.5	*Plessey	May 27	Final 4.411
Butterfield-Harvey	June 16	Final 1.0	Powell Duffryn	June 24	Final 9.55
*Cap and Counties Prop.	May 26	Final 2.4	*Premier Cons.*	*June 8*	*Final 10%*
Carless Capel	June 2	Final 1.75	Racal Electronics	June 23	Final 3.4
Centrovincial Estates	July 2	Final 1.33	*Ranks Hovis McDougall	May 25	Interim 1.524
Charter Cons.	June 23	Final 6.6	*RHP	May 27	Interim 2.0
Chloride	June 24	Final nil	Redland	June 25	Final 4.67
Chubb	June 24	Final 3.478	*Reed Intl	June 7	Final 9.0
*Coalite	June 2	Final 2.8	Renold	June 25	Final nil
Cohen (A.)	June 11	Final 4.9	SGB	June 30	Interim 2.3
*Courtaulds	May 27	Final 1.0	*Samuel (H.)	May 26	Final 4.75
Dawson Intl	June 17	Final 5.25	Scottish & New Breweries	July 2	Final 2.875
*De La Rue	June 2	*Final 14.4*	*600 Group*	*June 11*	*Final 2.91*
Electro-components	June 25	Final 5.5	Sketchley	June 9	Final 6.2
Elliott (B.)	June 10	Final 3.0	*Stakis	May 25	Interim 0.45
*English China Clays	June 17	Interim 2.7	Stead and Simpson	July 1	Final 2.5
*Extel	May 27	Final 5.75	*Tate and Lyle	May 26	Interim 4.0
Ferguson Industrial	June 15	Final 3.3	Tesco Stores	June 17	Final 1.65
Ferranti	June 24	Final 4.0	Town and City Props.	July 3	Final 0.01
GEI Intl	June 23	Final 3.555	*Trusthouse* Forte	June 25	Interim 1.5
Granada	July 1	Interim 1.75	UBM	May 28	Final 1.0
Great Portland Estates	June 10	Final 4.0	Wedgwood	June 19	Final 2.425
Guinness (A.)	*June 12*	*Interim 1.575*	Westland	June 10	Interim 2.5
Hambros	June 23	Final 160.0	Whitecroft	June 22	Final 2.6
Hanson Trust	June 10	Interim 4.25	*Wlvrhmptn and Dudly Bws.	May 25	Interim 1.65
Harrisons and Crosfield	June 2	Final 20.5			
Hickson and Welch	June 4	Interim 2.5			
Hill Samuel	June 11	Final 4.8			
*International *Paint*	*May 27*	*Final 2.545*			
International Timber	June 16	Final 2.0			

** Board meeting intimated.* † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Public Works Loan Board rates

Effective May 15

Years	Quota loans repaid by EIP†	Quota A‡	Quota at maturity§	Non-quota loans A* repaid by EIP†	Non-quota A‡	Non-quota at maturity§
Up to 5	13½	13⅝	14	14⅛	14¼	14⅝
Over 5, up to 6	13¾	13¾	14¼	14⅜	14⅜	14⅜
Over 6, up to 7	13¾	13¾	14¼	14⅜	14⅜	14⅞
Over 7, up to 8	13⅞	14	14¼	14⅝	14⅝	14⅞
Over 8, up to 9	13⅞	14⅛	14	14⅝	14⅝	14⅝
Over 9, up to 10	14	14⅛	14	14⅝	14⅝	14⅝
Over 10, up to 15	14⅛	14	13⅞	14⅞	14⅝	14½
Over 15, up to 25	13⅞	13¾	13⅞	14⅞	14⅜	14⅜
Over 25	13¾	13¾	13⅞	14⅜	14⅜	14⅜

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

LOCAL AUTHORITY BOND TABLE

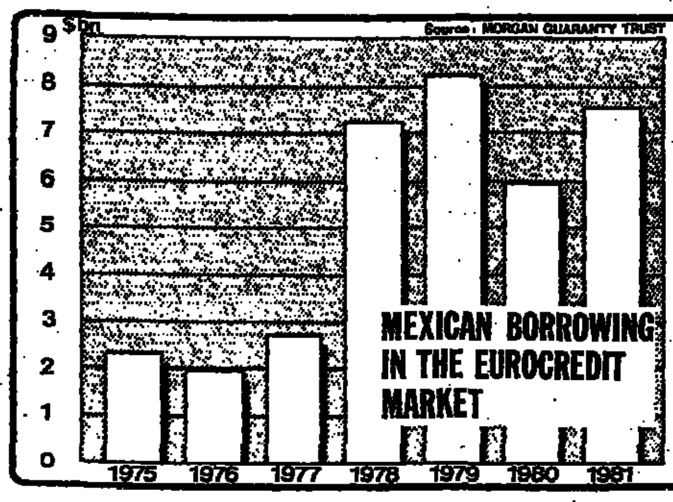
Authority (*telephone number in parentheses*)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Knowsley (051-548 6555)	13¾	½-year	1,000	4-8

INTERNATIONAL CAPITAL MARKETS

CREDITS

Mexico and Bolivia jar already frayed nerves

DEVELOPMENTS in the Eurocredit market at the end of last week were hardly designed to calm the nerves of bankers already frayed by the military escalation of the Falkland Islands dispute between Britain and Argentina.



Mexico added to worries about its overstretched finances with a request for a $1bn bridging loan from lead managers of its current $2.5bn Eurocredit and, in what several bankers describe as a serious threat to the debt rescheduling agreed last year, Bolivia said it could not meet payments commitments due to international banks next month.

Bank of America, which is co-ordinating the Mexican credit, says there is nothing particularly unusual about its request for bridging finance. The credit was delayed slightly because of general uncertainty in the financial markets, it says.

Bankers in Mexico City suggest that Mexico needs the funds early to bolster its reserves, which at the end of last year totalled $10.7bn. Mexico does not report regularly on its reserve position, but an official figure is generally published at each annual bankers' convention and this year's convention starts in a week's time in Acapulco.

But there seems to be no getting away from the fact that Mexico's request for the finance underlines its very tight cash-flow situation. It is now officially admitted that its gross borrowing requirement in 1982 will be between $25bn and $28bn which means the country has to raise between $2.2bn and $2.6bn a month from now on.

Bolivia's shortage of foreign exchange is believed to be due to it inability to discount proceeds of natural gas sales to Argentina because of the Falklands crisis. Bolivia is expected to call a meeting of its international bankers to discuss its cash flow situation.

The patience of the international banking community has been steadily dwindling since Bolivia has persistently failed to agree a stabilisation programme with the International Monetary Fund following an agreement to reschedule some $450m in commercial bank debt last April. But banks have stood by the rescheduling agreement because until now Bolivia has made debt service payments punctually.

Later this week attention will focus on Venezuela which is also seeking a credit of around $2.5bn. Banks will be meeting to discuss the operation in Frankfurt on Wednesday amid signs that the credit could meet some resistance because of Venezuela's outspoken support for Argentina in the Falklands affair.

Some banks are worried that Venezuela might be planning to help Argentina financially although the proceeds of its $2.5bn loan could not be used for that purpose. Under the country's public credit law they are to be used to consolidate short-term debt.

Meanwhile there was little new business announced in the Eurocredit market last week. In Latin America a group of banks led by Chase Manhattan has been awarded a mandate to raise a $100m credit for the oil concern ENAP of Chile, although the terms have not yet been finally agreed.

In Europe banks have been invited to bid on a new $250m package for Greece's Public Power Corporation which will comprise a Eurocredit of $210m and a private placement of securities totalling $40m. Interest is expected to be keen following the success of Greece's latest $550m credit.

Other new business includes a $175m, seven-year credit for the Australian resources concern, CRA. The credit, on an unspecified margin, has been arranged by Japanese banks co-ordinated by Bank of Tokyo.

French state electric utility, EDF has arranged a Y10bn syndicated credit through Nippon Credit, the first yen loan to a French entity, while Irish Telecommunications Investments made its debut in the market with an eight-year $54m credit bearing a split ⅜-½ margin and led by Orion Royal and Ulster Investment Bank.

Romania has meanwhile asked banks to top up a $300m multi-currency credit arranged through Barclays Bank International in 1978.

Peter Montagnon

INTERNATIONAL BONDS

Heavy calendar for West Germany

WEST GERMAN bankers agreed one of their heaviest calendars of new foreign bond issues ever at a meeting in Frankfurt on Friday.

Between now and the end of June they plan to bring around 20 issues to the market for a total value of DM 1.83bn. This compares with a calendar of DM 1.65bn for the period mid-April to mid-May.

Bankers in Frankfurt said they were hoping that the market would continue to move higher in June once it has overcome its recent period of consolidation. But to ward against excess they agreed that no single bond would be for more than DM 100m and private placements would be limited to DM 75m.

An exception to this rule would be a DM 150m issue planned for the Inter-American Development Bank next month.

Meanwhile the new calendar got off to an immediate start with the launch of a DM 100m, ten-year 8¾ per cent issue for the Council of Europe. Today should see the launch of a DM 100m bond for the Mexican electric utility Comision Federal de Electricidad through WestLB.

The meeting to set the new D-Mark calendar was one of the few "events" in the international bond markets last week with many dealers absent in Venice for the annual meeting of the Association of International Bond Dealers.

Very quiet trading was reported in all major sectors with fixed interest Eurobonds shedding ½ point during the week

Those dealers who were at their desks pointed to some continuing underlying worries about short-term interest rates and the Falkland Islands crisis. The market was also unsettled by the losses announced by Chase Manhattan in connection with its involvement with Drysdale Securities, the U.S. Government securities trading firm.

Another French state borrower braved the floating rate note market on Friday, however, with a $250m, ten-year issue for Credit d'Equipement des Petites et Moyennes Entreprises, which lends to small business.

Led by Banque Nationale de Paris this bears a margin of ¼ per cent over six-month Libor, but a feature is that commissions total only 1 per cent, which makes the issue one of the finest priced floating rate notes yet seen for a French state borrower.

Elsewhere the ECU issue for Hydro Quebec was increased by ECU10m to ECU50m by lead managers Kredietbank who claim this is the first time there has been substantial demand for ECU denominated bonds outside the Benelux countries.

P.M.

AIBD MEETING

The coming of age of the Euromarket

THE EURODOLLAR bond-market is preparing itself for a heavy June calendar of new issues despite an atmosphere of continuing uncertainty over the trend of short-term interest rates. This was the consensus view among bond traders and new issue managers attending last week's annual meeting of the Association of International Bond Dealers (AIBD) in Venice.

The mood on the terrace of the Hotel Excelsior Lido was one of caution as to the ability of the market to absorb the billions of dollars worth of borrowing waiting to be launched. But the Venice conference, which drew more than 1,400 participants, also reflected the coming of age of the Euromarket.

Delegates pointed with pride to the fact that Eurobond new issue volume during the opening months of 1982 has surpassed that of the U.S. bond market, excluding Treasury offerings. "We must be doing something right," declared Mr Michael von Clemm, chairman of Credit Suisse First Boston.

In the period from January through mid-May, the Eurobond markets saw 300 new issues, totaling $30bn, against a 1981 comparable volume of $9bn and 150 issues.

Among the highlights of the Venice conference was the election of a new 17-member AIBD board on Friday. Eight board members decided not to stand again, including Mr Rupert Hambro, the chairman, and Mr Walter Koller, vice chairman. Mr Koller, of Credit Suisse, had served for 13 years, since the birth of the organisation.

The new chairman was expected to be Mr Damien Wigny of Kredietbank Luxembourg. Other new members elected on Friday were Mr Gian Carlo Arduino, Mr Maurice Armand, Mr Cees Byloos, Mr Osama el Ansari, Mr Peter Luthy, Mr Pier-Luigi Quattropani, Mr Klaus Roehricht, and Mr Lutz Thieroff.

The Venice conference approved several new resolutions, including one changing the statute of the AIBD in order to allow a new form of associate membership which would be open to central banks, clearing houses such as Cedel and Euroclear, and others. Seven years ago the association had some 200 member institutions; today the number is around 600.

Although the AIBD is often accused of being a social club it has created a framework of regulations over the past decade which have influenced market behaviour in so far as this is feasible in an unregulated market.

The organisation has not been able to deal with the new issues side of the market. It was significant therefore that the conference voted on Friday to institute a rule governing the behaviour of issuing houses.

The rule itself, relating to agents for issuers of convertible debentures, was not as important as the factt hat the AIBD was edging towards a more formal interest in the primary side. The proposal was passed by a sizeable majority, but 39 members abstained, illustrating the reluctance of many to attempt any regulation of issuing houses.

The other noteworthy proposal adopted by the conference was a members' resolution on debt re-scheduling, spearheaded by Mr S. M. Yassukovich of the European Banking Company, and signed by 25 members.

The proposals is designed to strengthen the position of bond holders in debt re-scheduling. Mr Yassukovich said the cases of Costa Rica, Poland, and Mexico's Alfa group showed how bond holders could be discriminated against. The resolution puts bonds on a more equal footing with syndicated loans and protects holders of bearer bonds from being forced to identify themselves.

Alan Friedman

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
Illinois Power‡	50	1989	7	14½	99¼	CSFB	14.679
Florida Tel.	65	1989	7	15	*	Smith Barney	*
Kollmorgen§	20	1997	15	9/9½	100	Merrill Lynch, CSFB, SG Warburg	*
Philip Morris‡	200	1994	12	0	22½	Lehman Bros. Kuhn Loeb, Goldman Sachs	13.340
Ottawa Carlton‡	40	1997	7.9	14¾	99	Wood Gundy	14.920
Bank of Baroda†‡	30	1989	7	7Φ	100	Lloyds Bank Intl.	7.000Φ
PK Christiania Fin.†‡	10	1992	10	7Φ	100	Mitsui Trust Bank	7.000Φ
Credit d'Equipement des Petites et Moyennes Entreprises†‡	250	1992	10	5¼Φ	100	BNP, Bank of Tokyo, Morgan Stanley, Nat. Bank of Abu Dhabi	5.250Φ
Orient Leasing§	20	1997	15	*	100	Daiwa Secs., Morgan Guaranty	*
CANADIAN DOLLARS							
Bell Canada	100	1989	7	15¾	*	UBS Secs.	*

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
D-MARKS							
Bowater‡	50	1989	7	8½	99½	BHF Bank	8.598
Helsinki‡	50	1992	7½	8¾	99¼	BHF Bank	8.992
Barclays Bank Intl.	100	1994	12	8¾	*	Dresdner Bank	*
Citizen Watch**§‡	30	1989	6¾	6¾	100	Bayr. Landesbk., Nikko Secs.	6.750
Council of Europe	100	1992	8	8¾	*	BHF Bank	*
SWISS FRANCS							
Ind. Fund of Finland‡	30	1992	—	6¾	100	Banque Gutzwiller, Kurz, Bungener	6.750
Okai Electric**§	50	1987	—	6½	*	SBC	*
Lonrho	80	1992	—	*	*	Banque Keyser Ullman, Kredietbank Suisse, Nordfinanz-Bank	*
New Zealand	100	1992/4	—	*	*	UBS	6.125
GUILDERS							
EIB‡	200	1992	10	10	99	Amro Bank	10.164
ECUs							
Hydro-Quebec‡	50	1989	7	13½	100	Kredietbank	13.500
YEN							
Australia‡	20bn	1992	10	8	99.95	Nomura Secs.	8.007

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. Φ Minimum. § Convertible. Note: Yields are calculated on AIBD basis.

US BONDS

Drysdale affair obscures market

THE SENATE is to hold hearings tomorrow on the Drysdale Government Securities affair *which had Wall Street teetering* on the brink of turmoil last week. While they are unlikely to shed much light on exactly what Drysdale was up to, because the firm's finances are still being untangled, the officials from the Federal Reserve, the Treasury and the SEC who have been called to testify, will doubtless be asked to address the big questions on everyone's mind: are there more Drysdales around, and if so what should be done about them?

The affair had all the makings of a full-blooded crisis which could have set off a string of defaults among Wall Street firms. Fortunately, Chase Manhattan Bank agreed to pick up the tab on Drysdale's debts, which will amount to over $250m. Chase was acting not out of charity but out of fear that it would be blamed for any disaster because it had helped Drysdale amass its multi-billion dollar positions. But while this costly gesture will insulate Wall Street from whatever nasty surprises still lurk in the Drysdale portfolio, the affair has left the markets jittery and anxious for information. The sharp jump in the money supply on Friday was an extra jab they could have done without.

As is usual when fears of a market crunch loom, traders and investors responded to the crisis by fleeing into quality short-term securities, in this case Treasury Bills. Three-month bill yields declined by almost 1 per cent in mid-week, to about 11.50 per cent, their lowest point this year. But the flight also drained other parts of the market, weakening bond prices and pushing up yields on longer dated securities. One of the market's major fears was that Drysdale's huge bond positions ($4.5bn net according to some market sources, most of it wound up in complex repurchase deals) would bring trading to a grinding halt.

Fortunately the Fed acted swiftly to supply liquidity to the markets and even offered to lend securities to traders who found themselves in difficulty. The much-feared "gridlock" did not materialise, and after Chase and the other two banks involved with Drysdale paid off its debts on Wednesday, trading began to get back to normal.

But though disaster was avoided, the crisis has raised serious questions about the lack of regulation in the government securities market where, as Drysdale showed, small outfits can apparently construct dizzyingly high trading pyramids not just on a small capital base but using borrowed bonds. Experienced traders blame the growth of Drysdale-type firms on high and volatile interest rates which offer opportunities for quick profit to nimble-footed dealers.

Aside from briefly putting the fear of death into the market, the affair also obscured normal trading patterns and made it hard for dealers to discern exactly what the Fed was up to at what could prove to be a crucial juncture for monetary policy. Were its massive injections of liquidity all linked to Drysdale, or did they signal an easing of credit policy as well?

The Fed happened to be holding its latest credit policy *meeting on Tuesday (the very* day the Drysdale affair broke) and some analysts were convinced by the end of the week that the Fed was willing to tolerate a build-up in reserves to take some of the pressure off *short-term* interest rates. These same analysts say it is no coincidence that the Fed funds rate, the key interbank rate through which the Fed influences the market, fell a full percentage point during the week to 13.50 per cent. They believe that the Fed is less concerned by the over-rapid growth in the money supply than Wall Street thinks. But comforting though this notion was, the markets did not like the $2.3bn rise in M1 announced on Friday, and it remains to be seen whether rates can hold the lower levels they achieved last week.

David Lascelles

U.S. INTEREST RATES (%)

	Week to May 21	Week to May 14
Fed. funds wkly. av	14.40	14.95
3-month Treas. bills	11.50	12.24
3-month CD	13.50	13.90
30-year Treas. bonds	13.14	13.22
AAA Util.	15.38	15.51
AA Industrial	14.88	14.88

Source: Salomon Brothers (estimates). In the week to May 12 M1 rose $2.3bn to $452.5bn.

Occidental Petroleum plans cuts

BY OUR FINANCIAL STAFF

OCCIDENTAL PETROLEUM, the Californian-based oil company, is heading for reduced profits this year and as a result is planning major business cutbacks.

The company, which experi*enced a sharp drop in 1982* first quarter earnings, told the annual meeting that "substantial" cuts in work force and expenses could be expected this year.

Asked to elaborate on the size of the cuts, Occidental would only say that its chemical operations were already being severely affected by the moves.

Partly as a result of losses in industrial chemicals and plastics, Occidental saw net *earnings slide to $62.1m in the* first quarter of this year, against $255m a year earlier. Earnings for 1981 as a whole totalled $722.2m.

Interest charges rose sharply—by $10m to $34.5m. But the quarter's performance was also influenced by the absence this time around of factors which inflated and distorted profits in the opening three months of 1981.

Despite the weak profits background, however, the company, which is headed by Dr Armand Hammer, was at pains to stress that shareholders' dividend was in no danger.

Dr Hammer told the meeting that the company expects to be a successful bidder for drilling rights when tracts are awarded later this year by China. Most of the terms for the proposed joint venture to develop a coal mine with China National Coal Development Corporation have been settled.

Occidental has already reported on a feasibility study. Dr Hammer said: "I have every confidence that we will sign the final contract."

Wheeling-Pittsburgh asks Kobe Steel for mill finance

BY RICHARD LAMBERT IN NEW YORK

WHEELING-Pittsburgh Steel, *the eight largest U.S. steel* maker, has asked Kobe Steel of Japan to help it finance the construction of a new seamless steel pipe mill in the U.S. Kobe is considering the proposal from the financially stretched U.S. steelmaker, but says that any final decision is still some way off.

Last year, Wheeling disclosed that it had sought without success for equity capital from Japanese and Korean steel producers. However, the company already has close financial and technical links with Japanese companies.

It is currently installing two continuous casters which are being bought from Japanese suppliers through Mitsubishi Corporation, which has arranged $140m of supplier finance. It has also completed a new rail mill, with equipment built by Kawasaki Heavy Industries and Nippon Steel.

Bank rescue for Turbo

BY ROBERT GIBBENS IN MONTREAL

TURBO RESOURCES an integrated oil and gas company based in Calgary, says it is close to agreement with its banks on a re-financing package.

The package involves debt repayment rescheduling, re-determination of debt, a company reorganisation, asset sales and cost reduction.

Turbo's audited net loss in 1981 was C$20.5m against 1980 net income of C$13.6m or 64 cents a share. Revenues were C$559m against C$322m.

Turbo said one of the key elements in the refinancing is the significant cash-flow expected from the new refinery near Calgary and the 310 Turbo service stations across Canada. The refinery is expected to be producing gasoline and diesel fuel by July, reaching capacity production levels by September.

Turbo said audited revenues for 1981 were C$559.8m up from C$322.1m in 1980.

Losinger dips into red

BY JOHN WICKS IN ZURICH

*LOSINGER, the leading con*struction company in Switzerland, has slipped into the red for 1981 and will again not pay a dividend.

Losses of SwFrs. 364,000 have been incurred, against a 1980 net profit of SwFrs 1.06m. Shareholders have now not received a dividend for five successive years.

Turnover reached a record SwFrs 689m last year, of which *SwFr 325m was accounted for* by contracts outside Switzerland. The volume of new orders also hit a peak at SwFr 713m, making an order backlog at the end of the year worth SwFr 558m ($282m).

The unsatisfactory trading results are accounted for primarily by the recession in the U.S. construction industry, high interest rates and losses on Iranian business.

Carolina Bank earnings upsurge

BY OUR FINANCIAL STAFF

CAROLINA BANK, *the London* merchant banking arm of North Carolina National Bank of the U.S., reports increased profits for 1981 and a fatter balance-sheet.

*Profits before tax and an ex*ceptional credit rose to £2.2m ($3.95m) last year from the £1.2m achieved for 1980. At the net level, profits emerged at £1.4m, against £478,000.

Top posts at Barclays Asia, Hong Kong

● **Mr Peter Dodd**, formerly assistant general manager of Barclays Bank International's planning department at its head office in London, has been seconded to BARCLAYS ASIA, the Hong Kong-based merchant banking subsidiary of BBI, as managing director. **Mr Michael Tomalin**, formerly an executive director of Barclays Bank International's Caribbean head office in Barbados, has been appointed an executive director of Barclays Asia.

● AIR FLORIDA has appointed **Mr Donald J. Lloyd-Jones**, a senior American Airlines executive, as the Air Florida president and chief operating officer from June 1. He has been senior vice president of operations for the past 10 years for American Airlines. Mr Lloyd-Jones replaces **Mr Eli Timoner**, who continues as chairman.

● **Mr A. F. Foulkes**, managing director and deputy chairman of Wiltshier Interiors, is accepting a new position as managing director Far East, based in Singapore, with responsibility for seting up and developing WILTSHIER INTERIORS in the Far East. He has been with Wiltshier Industries for 18 years, the past six as managing director.

● **Sir Anthony Tuke**, retired chairman of Barclays Bank and currently non-executive chairman of Rio Tinto Zinc Corporation, has been appointed to the international advisory board of REPUBLICBANK DALLAS.

● **Mr John P. Harbin**, Dallas, chairman of the board and chief executive officer of Halliburton Company, a director of Burlington Industries, Citicorp and Petrolite Corp, and **Mr Arthur R. Taylor**, New York, chairman, president and chief executive officer of RCTV (a pay cable television service), managing partners of Arthur Taylor & Company, New York, and a director of the Travellers Corp, First Boston Inc, and Pitney Bowes Inc, *have been elected directors* of THE LOUISIANA LAND AND EXPLORATION CO. The two new directors replace **Mr Elliott Averett**, deceased, and **Mr E. J. Langhetee, Jr**, retired. All other directors have been re-elected.

● BANDAG INC's president **Mr Martin G. Carver** has been elected chief executive officer replacing **Mr Charles E. Edwards** who continues as president and a director.

INTERNATIONAL APPOINTMENTS

● **Mr Edmund M. Olivier** has been made vice-president, technology, *planning*, and development, for DIAMOND SHAMROCK CORP. *Dallas*. He has been vice-president, planning and development, since joining Diamond Shamrock in August 1980, and now assumes additional responsibilities for the company's corporate research, engineering, new ventures, and energy affairs.

Mr E. M. Olivier

● At AMERADA HESS CORP **Mr Leon Hess** is stepping down as chief executive officer but will remain as chairman. The president, **Mr Philip Kramer**, was named chief executive officer and will continue as president.

● **Mr Howard A. Knight** has been appointed as an additional *director on the board of WEEKS* AUSTRALIA. He is managing director of Weeks Petroleum, major shareholder in Weeks Australia. **Mr J. B. Harper** ceases to be an alternate director for **Mr Neil Walford**, managing director of Weeks Australia.

● **Mr Allen T. McInnes** has been appointed executive vice-president of TENNECO INC, Houston.

● NV BELEGGINGSMAATSCHAPPIJ WERELDHAVE, The Hague, will propose **Mr H. A. A. Regeling** and **Mr L. O. Husken** for nomination to the board of management at the extraordinary shareholders' meeting on June 4. Mr Regeling was president of Wereldhave's American subsidiary, West World Holding Inc. Mr Husken is an assistant direc*tor of the company*. These appointments will fill the vacancy arising on the departure of **Mr A. Voute**.

● **Mr Richard W. Bramlett** has been named president and general manager of LONG REACH MANUFACTURING, a division of Anderson, Clayton and Company, replacing **Mr Wenzel A. Gandy** who has retired. The division manufactures materials handling equipment. **Mr F. Clair Williams** has been named vice-president — transportation services for Gulf Atlantic Distribution Services, a division of Anderson, Clayton and Com*pany*.

● **Mr Charles W. Dieker** has been elected to the board of BEECH AIRCRAFT CORP, a subsidiary of Raytheon Company. He is senior vice-president and treasurer.

● **Mr Peter F. Maloy** has joined THOMAS A. GREENE AND COMPANY, New York, as executive vice-president and chief operating officer. The company is the reinsurance subsidiary of Alexander and Alexander Services Inc. He was a senior vice-president, director and head of the New York office of E. W. Blanch Company, a reinsurance broker.

● **Mr Robert Staubli**, management chairman of Swissair, has been elected to the board of *CIBA-GEIGY, Basle*.

● NATOMAS COMPANY, San Francisco, has appointed **Mr Edward E. Masters**, former U.S. Ambassador to Indonesia, as senior vice-president for international affairs, a new position established to strengthen Natomas's relations with Pacific Basin nations. He will be based in Singapore, and most recently was Adjunct Professor of Diplomacy at The Fletcher School of Law and Diplomacy of Tufts University in Medford, Massachusetts.

● PROCON INTERNATIONAL INC, Des Plaines, has appointed ***Mr Harvey L. Weisenfeld*** vice-president, operations—western hemisphere. He will also serve as president of Procon Inc, the general contracting subsidiary *of* Procon International Inc.

● The first elected board of G.I.E. CIMATEL, Nantes, is: **Mr Jean-Claude Cornet**, general manager of Citamel; **Mr Marc Lassus**, general manager of M.H.S.; **Mr Pierre Fougere**, president of M.H.S.; and **Mr Bernard Giroud**, managing director of INTEL.

● **Mr John Horswell**, general manager in Spain for EXPLAURA GOLD, has been appointed a director with overall responsibility for the Group's Spanish exploration activities.

● GALVESTON - HOUSTON *COMPANY has elected* **Mr David O. Rodrigue** vice-president, finance and controller. He joins the company after eight years with Coopers and Lybrand, where he was audit manager.

● WESTERN AIRLINES has named **Mr Andre C. Dimitriadis** vice president-finance and chief financial officer. Mr Dimitriadis is moving to Western from Air California where he has been vice president-finance and chief financial officer since 1980.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Aetna Life 15 86/97	150	101⅞	102⅜	−0⅛	0	14.22
Amax Int. Fin. 16¼ 92	75	104¼	104¾	+0⅛	+0½	15.31
Amex O/S Fin. 14½ 89	75	97¾	98¼	+0⅛	+0⅛	14.71
APS Fin. Co 16¼ 89	75	103½	104	+0¼	−0½	15.26
Armco O/S Fin 15⅞ 86	50	100½	101	+0¼	+0⅛	15.05
ATT 14¼ 89	400	101⅝	102⅛	+0¼	+0⅛	13.75
Baker Int. Fin 0.0 92	225	†27½	28	0	0	14.03
Bk. Amer. NT SA 12 87	200	92⅝	93⅛	+0⅛	+0¼	14.09
Burroughs Int 15⅛ 88	50	104½	105	+0¼	−0⅛	14.45
Canadair 15½ 87	150	101⅝	102⅛	0	−0⅜	14.88
Can. Nat. Rail 14⅝ 91	100	99⅞	100⅜	+0¼	0	14.55
Carolina Power 16½ 89	60	104½	105	+0¼	+0⅛	15.27
CIBC 15 87	100	102⅝	103⅛	−0⅛	−0⅛	15.03
Citicorp O/S 15 84/92	100	100½	100⅞	−0⅛	−0¼	14.54
Citicorp O/S 15½ 85/97	125	101½	102	+0¼	0	14.61
CNA 15¾ 97	75	101¼	101⅝	+0⅛	+0⅜	15.58
Con. Illinois 15⅜ 89	100	102⅝	103⅛	0	−0¼	15.00
Duke Pow. O/S 15½ 89	60	102½	103	+0⅛	+0¼	14.81
Dupont O/S 14½ 89	400	100⅝	101⅛	+0⅛	+0⅛	14.23
Dupont O/S Cap 0.0 90	300	36½	37	−0⅛	−1⅛	13.84
ECSC 14⅞ 87	50	99⅜	99⅞	0	0	14.82
EIB 15½ 89	150	101½	101⅞	+0⅛	−0⅛	15.09
[illegible] 14½ 89	50	98¼	98¾	+0⅛	−0⅛	14.85
Gen. Elec. Credit 0.0 92	400	29⅞	30⅜	0	−0⅞	13.11
Gen. Elec. Credit 0.0 93	400	25⅝	26⅛	−0⅜	−1⅛	13.42
Getty Oil Int. 14 89	125	99	99½	0	+0¼	14.17
GMAC O/S Fin 16 88	150	102⅞	103⅜	+0⅛	+0⅛	15.15
GMAC O/S 15⅜ 85/97	100	99½	99⅞	0	0	15.42
Gulf Canada Ltd 14½ 92	100	100¼	100⅝	+0¼	+0¼	14.85
Gulf Oil 14¼ 94	175	99	99½	0	+0⅛	14.36
Gulf Oil Fin 0.0 92	300	28½	29	+0⅛	+0⅛	13.59
Gulf States O/S 16 90	60	101¼	101⅝	+0⅛	+0¼	15.63
Int. Am. Dev. Bk. 15½ 87	55	100¼	100¾	+0⅛	+0¼	14.92
Japan Airlines 15½ 88	50	102¼	102¾	+0¼	+0⅜	14.57
Japan Dev. Bk. 15½ 87	50	103⅞	104⅜	+0⅛	+0⅛	14.26
New Brunswick 16¼ 89	75	105⅛	105⅝	+0⅛	−0½	14.89
OKB 15⅞ 85/97	50	98½	99	0	0	16.13
Ontario Hyd. 16 91 (N)	200	105½	106	+0¼	−0½	14.78
Ontario Hydro 14⅞ 89	150	101½	102	+0¼	0	14.32
Pac. Gas & El. 15⅞ 89	80	103¾	104¼	+0⅜	+0¼	14.71
Pac. Gas & El. 15½ 89	45	103⅝	104⅛	+0⅜	+0⅛	14.54
J. C. Penney GI 0.0 94	350	22⅛	22⅝	−0⅛	−1⅛	13.55
Phillips Petrol 14 89	200	97½	98	+0⅛	+0⅛	14.52
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 8¼ 91	15	100⅝	101⅛	0	−0⅛	8.10
Int-Amer. Dev. 8⅞ 91	15	102⅝	103⅛	0	−0⅛	8.45
Japan Airlines 7⅞ 87	9	97½	98	−0⅛	−0⅛	8.45
New Zealand 8⅛ 87	15	100⅝	101⅛	0	−0⅛	8.06
World Bank 8⅜ 92	20	100⅝	101⅛	0	0	8.25

Average price changes.. On day 0 on week −0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Can. Pac. S. 16⅛ 89 CS	50	†99	99½	0	−0½	16.54
Crd. Foncier 17¼ 89 CS	30	†99⅝	100⅛	0	−0⅛	17.11
Hudson Bay 17 89 CS	40	†99⅝	100⅛	0	−0⅛	16.98
Montreal 17 89 CS	50	†101½	102	0	−0½	16.50
Queb Hydro 16½ 89 CS	50	†98¼	98¾	0	−1½	16.84
Quebec Prov. 17 88 CS	50	†102⅝	103⅛	0	+0⅛	16.11
Simpsons 16¾ 89 CS	40	†97½	98	−0⅛	+0⅛	17.34
U. Bk. Nwy. 9½ 90 EUA	18	†89	90½	−0⅛	−0⅛	11.55
Amro Bank 10 87 Fl	150	99⅛	99⅝	+0⅛	−0⅛	10.13
Bk. Mees & H. 10 87 Fl	75	99⅜	99⅞	+0½	+0½	10.09
Eurofima 10½ 89 Fl	50	101⅞	102⅜	+1	+0⅛	10.04
Phil. Lamps 10⅛ 87 Fl	100	101¼	101¾	0	−0⅛	9.84
Rabobank 12 86 Fl	50	106⅝	107⅛	+0⅛	+0⅛	9.82
World Bank 10 87 Fl	150	98⅞	99⅜	−0⅛	−0⅛	10.23
OKB 14 86 FFr	400	92⅝	93⅛	−0⅛	0	16.73
Solvay et C. 14¾ 86 FFr	200	92	93	−0½	−0⅛	17.54
Acona 14 85 £	20	95½	96½	0	+0⅛	15.46
Beneficial 14½ 90 £ (D)	20	88½	89½	0	+0⅛	16.79
BNP 13½ 91 £	15	92¼	93	+0⅛	+0⅛	15.03
CECA 13½ 88 £	20	94⅝	95⅛	−0⅛	−0⅛	14.80
Fin. Ex. Cred. 13¾ 86 £	15	95⅜	96⅞	−0⅛	−0⅛	15.24
Gen. Elec. Co. 12¼ 89 £	50	92⅞	93⅜	−0⅛	0	14.17
Hiram Walker 14⅛ 86 £	25	97⅛	98⅛	+0⅛	−0⅛	15.02
Privatbanken 14½ 88 £	12	94½	95½	0	−0⅛	15.85
Quebec 15½ 87 £	35	101⅝	102⅛	−0⅛	−0⅛	14.82
Read (Nd) NV 16¾ 89 £	25	102⅝	103⅝	0	−0⅛	15.94
Royal Trustco 14 86 £	12	97⅝	98⅝	+0⅛	0	14.62
SDR France 15½ 92 £	30	99⅝	100⅝	0	−0⅛	15.52
Swed. Ex. Cr. 13¾ 86 £	20	97⅝	98⅝	0	−0½	14.51
Eurofima 10⅝ 87 LuxFr	500	95⅞	96⅞	0	−0⅛	11.40
EIB 9¾ 88 LuxFr	600	92⅞	93⅞	−0½	−1⅛	11.37

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EUROBOND TURNOVER
(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	¶	9,042.3
Previous week	4,284.0	11,685.3
Other bonds		
Last week	¶	736.7
Previous week	927.4	638.3

¶ Figures not available.

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Bankers Trust International; Credit Commercial de France (Securities) London; Citicorp International Bank; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nikko Securities Company (Europe); Orion Royal Bank; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on May 21

INSURANCE

Support grows for Howden as Lloyd's Bill enters crucial stage

BY JOHN MOORE, CITY CORRESPONDENT

THE Lloyd's of London legislation for improving the insurance market's self-regulation has entered the most sensitive and crucial phase in its Parliamentary history. Key clauses of the Bill are facing an unprecedented degree of opposition in the House of Lords from sectional interests of the Lloyd's market.

A large part of the Lloyd's market has ranged itself against the Lloyd's establishment in an effort to prevent the legislation incorporatitng clauses vital to the effectiveness of the self-regulatory powers. The clauses under attack are those which require Lloyd's insurance brokers, the buyers of insurance on behalf of clients, to sell their *shareholding links* with underwriting agency companies, which run underwriting syndicates, the sellers of insurance.

Alexander Howden Group, a leading Lloyd's insurance broker and part of Alexander and Alexander, the world's second largest insurance broker, is *fighting the clauses through a* Parliamentary petition supported by three other major brokers—C.E. Heath, Minet Holdings, and Stenhouse Holdings.

They are supported in the background by three other brokers — Sedgwick Group, Willis Faber and Stewart Wrightson. These groups have expressed support for the Lloyd's legislation, but privately they are violently opposed to the divestment clauses. They have supported the legislation so far because they felt that without the divestment clauses the Lloyd's Bill would never reach the statute books.

Last week, Sedgwick Group, Stewart Wrightson and Willis Faber allowed correspondence to be submitted by the Howden lobby expressing their reservations *about divestment.*

Howden has other support. A group of underwiting agents is also attempting to remove the divestment clauses from the legislation through a Parliamentary petition.

A House of Commons committee insisted that Lloyd's included the divestment clauses because it had identified conflicts of interests which could undermine Lloyd's self regulatory powers which the market is seeking in its new regulation.

A broker's main duty is to the assured, while an underwriter is primarily answerable to the investors who put up the capital. Moreover, mergers and acquisitions of brokers and underwriters in recent years have *concentrated* power into fewer and fewer hands, threatening Lloyd's market character and with it Lloyd's reputation as a centre for flexibility and development.

The divestment clauses attempt to regularise the relationships between a broker, the broker's client, and the underwriting capital base of the market, to restore Lloyd's market character and identity, and to eliminate the possibility of abuse through conflicting interests within Lloyd's.

Those opposing the divestment *clauses* argue that the delicate fabric of the relationships within Lloyd's will be damaged.

Non-marine underwriters, those specialising in general lines of insurance business, from fire and damage to property to pianists' hands, say that underwriters *may have to forge* closer links with brokers in the future. Underwriters argue that they should be allowed to own brokers in order to market their own insurance schemes or products to remain competitive.

This argument, advanced before the Lords committee, was challenged by the Lloyd's establishment. The broker should be the agent of the assured and not the agent of the underwriter, Lloyd's legal counsel said.

Of more direct concern, brokers and underwriters, in *defending* the status quo within Lloyd's, have pointed out other conflicting interests within the market. These conflicting interests are serious and have far-reaching implications. Lloyd's and outside regulatory agencies will need to examine them closely.

It was pointed out that directors of client companies—the assured—are often invited by brokers to become members of Lloyd's syndicates, sometimes syndicates in which the director's own company has placed its insurance business.

In this way, brokers, by implication, created a quiescent client who is unlikely to complain about the size of premiums being charged by Lloyd's. The client's directors often stand to make a handsome profit by reason of membership of Lloyd's through high rates being charged.

A more serious point was advanced by a broker. Brokers will not lose much in the way of disclosed profit by divestment, but they wil break up a favourably disposed revenue earning environment.

It is clear that a whole host of reciprocal revenue-earning arrangements will be disturbed by divestment. Conflicting interests, which may be against *the wider public interest,* are reflected in the long-standing commercial arrangements of mutual benefit between the brokers and underwriters. These links will be broken if divestment goes through.

No wonder then, that brokers and a number of underwriters are against the measure, with just three brokers earning substantial revenues through controlling half the underwriting capacity at Lloyd's, and eight brokers producing more than 60 per cent of the business. If divestment goes through, said one broker, the brokers will come to regard Lloyd's as "just another market" lacking vital financial incentive

Search and destroy plan fights cancer

SCIENTISTS are working on a new approach in the fight against cancer which involves starving tumours of blood and killing them. They seek drugs that would cut off blood supply to tumours while not attacking the tumours directly.

Dr Julie Denekamp, head of the project, at the Gray Laboratory, Mount Vernon Hospital, Middlesex, said scientists knew from experiments with mice *that cancer cells died within 24* hours of being deprived of blood.

Research at her laboratory over two years established that the cells lining the blood vessels leading to tumours multiplied much faster than in normal blood vessels. This opened the possibility of putting drugs into the blood stream to home in and destroy proliferating blood vessels round tumours without harming normal blood vessels.

Her team was being helped in its search by a Cancer Research Campaign laboratory

This week's business in Commons and Lords

TODAY

Commons: Transport Bill, Report stage.

Lords: Local Government Finance (No2) Bill, Committee. Debate on elections in El Salvador.

Select Committees: Foreign Affairs—Subject: Caribbean and Central America: British approach to security, stability and development. Witnesses: Foreign and Commonwealth Office; Overseas Development Administration (Room 16, 4.30 pm).

Education, Science and the Arts—Subject: Biotechnology. Witness: The Rt Hon Patrick Jenkin MP, Secretary for Industry (Room 6, 5.00 pm).

TOMORROW

Commons: Transport Bill, remaining stages.

Lords: Stock Transfer Bill, Second Reading Social Security and Housing Benefits Bill, Report. Debate on Government policy on community enterprise programmes, and proposals to reduce substantially the grant being made to Elephant Jobs of London.

Select Committees: Agriculture—Subject: Less Favoured Areas. Witnesses: Ministry of Agriculture Fisheries and Food, Department of Agriculture and Fisheries for Scotland (Room 16, 11.00 am).

Environment — Subject: Methods of financing local government in the context of the Government's green paper (CMND 8449). Witness: The Rt Hon Tom King MP, Minister for Local Government and Environmental Services (Room 8, 4.00 pm)

Procedure (Finance) — Subject: Procedure (Finance). Witness: Sir Leo Plaitzky (Room 15, 4.15 pm).

WEDNESDAY

Commons: Debate on the European Community Harbours (Scotland) Bill, remaining stages. Motion on the undertaking relating to highlands and islands shipping services.

Lords: Debate on Report "Transport without handicap." Short debate on the situation in the Middle East. Iron and Steel Bill. Short debate on the Government's response to the Wilson Report on Public Records.

Select Committees: Education, Science and Arts—Subject: Biotechnology. Witnesses: Mr William Shelton MP, Under Secretary for Education and Science; University Grants Committee (Room 6, 10.30 am).

Social Services — Subject: Public Expenditure White Paper: Personal Social Services. Witnesses: Association of Directors of Social Services; Professor Adrian Webb and Mr Gerald Wistow of the University of Loughborough (Room 21, 4.15 pm).

Treasury and Civil Service Sub-Committee—Subject: The structure of personal income taxation and income support. Witnesses: Board of Inland Revenue officials (Room 15, 4.45 pm).

Committee on Private Bills: Unopposed Bills—1 Hong Kong China Gas Company 2. Thomas Brown and Sons.

THURSDAY

Commons: Northern Ireland Bill, Committee stage.

Lords: Local Government (Miscellaneous Provisions) Bill, Third Reading. Local Government and Planning (Scotland) Bill, *Second Reading. Industry* Bill (Money Bill), Second Reading.

FRIDAY

Commons: Adjournment for the Spring (Whitsun) recess, until Tuesday, June 8.

Young backed city rioters last year, says researcher

FINANCIAL TIMES REPORTER

A SOCIAL survey initiated, but kept unpublished by the Committee for Research into Public Attitudes found that young people and the unemployed were more sympathetic with last summer's rioters than with the police, Mr David Marsland, a Brunel University sociologist, says in a book published today.

Older people tended, on the whole, to support the police, he adds in his article in a new social affairs unit report.

"The survey research shows . . . a polarisation between young and adult society with ominous potential for generational conflict, extremist political manipulation, crime and social distintegration."

The study also showed that around 80 per cent of adults and young people are in favour of two years' training in industrial skills for school leavers.

Mr Marsland say it is "mere fantasy" to hope that youth unemployment can be solved by training based on "stale ideas which have been tried, and tested and failed."

BUILDING AND CIVIL ENGINEERING

Builders merchants confident

BUILDERS merchants are beginning to reap the benefit of this year's recovery in housebuilding starts, but industry observers last week advised against the bland assumption of *an unbroken trend of improvement* from now on.

Figures issued by the Builders Merchants Federation for the month of March this year show an increase in sales of 1.3 per cent over March, 1981. The figures are adjusted for price rises based on Department of Industry variations and take account of special factors. The DOI variation for March, 1982 is 8.76 per cent.

For the cumulative years ending March 1982, says the BMF, sales were down by 6.6 per cent. But this was an improvement on the year to February 1982, which showed an 8.6 per cent fall and continued the steady improvement of January (down 9.5 per cent) and the last months of 1981.

London stockbrokers Savory Milln have taken a consistent line on the early recovery prospects for some of the leading builders merchants which, they say, so far have shown an impressive capacity to weather the 1981 storm.

They note that builders merchants such as Travis & Arnold, Sharpe & Fisher and Erith have reported profits for 1981 down by 15 to 20 per cent. The outlook, they say, is for a recovery to 1980 levels in 1982.

Mr Robert Erith, the Savory Milln partner who heads the firm's building research team sees the possibility that things might have been dampened down in April, and to some extent May by the Falklands crisis. However, he stands by his team's forecasts for the year as a whole.

Commenting on the figures Mr Reg Williams, Director of the BMF, said: "these figures show that our confidence in the steady national improvement during past months has not been misplaced, as recently confirmed also by the NFTBE and HBF surveys."

Mr Williams, too, agreed that "people are more than a little worried" about the Falklands crisis. "They are concerned, first, about the effect on confidence generally," he said, "and about the effect that it might have on interest rates."

Meanwhile the BMF notes considerable regional variations, especially within the figures for March itself. For the month, Scotland recorded an outstanding 23.8 per cent increase, followed by the East Midlands with a 7½ per cent rise and the Northern region and Wales, each with a 3.3 per cent improvement. These contrasted sharply with the drop of 3.5 per cent by the West Midlands.

Mr Williams said that there were extraordinary differences in performance, not only throughout the country but also within the regions. "I can only put it down to what some of the big merchants are doing to rationalise their operations," he said.

This may apply to the South East where a couple of major companies, according to anecdotal evidence, performed in March far better than the 2½ per cent rise derived from the BMF sample. However, Mr Williams said that the BMF had completely revamped its sampling procedure in recent months—by increasing the sample nationally and regionally, and improving it by including large, medium and smaller companies.

Meanwhile, the most understandable variation within the BMF figures were within the product range itself. Heavyside products showed the best increase during the month, 7.2 per cent, reflecting a return to exterior building works after the bad winter (heavyside products include bricks, blocks, cement and drainage, in other words those incorporated in the first part of the building process).

Mr Williams added that the lightside trade — bathrooms, paints, tools and so on—in Scotland and Wales leads the other regions during the year, due probably to a buoyant home improvements business. But lately, he reckoned, the do-it-yourself and home improvements products were beginning *to slip a bit, bad news for some* of the multiple stores whose incursions into DIY have been poaching on the merchants' traditional preserves.

WILLIAM COCHRANE

Town planners want radical changes now

AT THE Royal Town Planning Institute annual conference last week Mr David Eversley, from the Department of Land Economy, University of Cambridge, presented some stark alternatives to the special pleading for government money which usually results when a particular area of the economy feels itself deprived.

While the population flight from Britain's cities cannot be stopped without an unacceptably drastic interference in freedom of choice, said Dr Eversley, professional planners, acting together, could advocate a system of land use and resource allocation which could arrest present trends.

"Active encouragement of low-cost low-density housing means a continuation of the emphasis on opening up developable land in the favoured areas, away from large cities," he said. "Again, it means the progressive abandonment of what remains of our regional policies, with little or no attempt to steer enterprises to areas of high unemployment."

The aim of all planning activity, claimed Dr Eversley, should be "the allocation of scarce resources for the benefit of those who cannot purchase a better environment in the open market." His prescription for change included the following courses of action:

Restrictions on further new building, residential, industrial or commercial, except for expansion of existing enterprises and to meet housing needs of local residents. This would mean no more science parks on greenfield sites.

No further allocations of public money for the preservation of historic buildings while local authority owned housing stock is falling to pieces; enforce public access to buildings which have had public subsidies.

No more greenfield motorised hypermarkets, drive-in banks, motels, world trade centres, until all land available for such purposes in the old urban areas has been brought into use.

Subsidised industrial premises to be built only where an identified local labour force can benefit from the new enterprises.

And, finally, concentration of available funds for structural repairs on facilities used by the disabled, by working lone mothers, by ethnic minorities, by the elderly, including repairs to roads and sewers of the inner areas; clampdown on suburban titivation (including some severe misuse of YOP schemes).

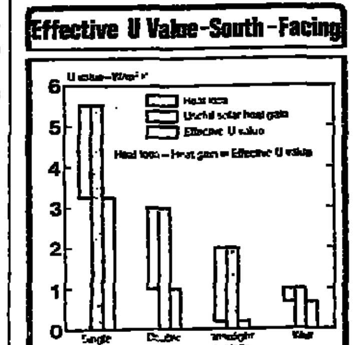
Double glazing has a brighter outlook

GLASS WHICH could "revolutionise housing designs" has been introduced after five years' research by Pilkington, Britain's leading glass manufacturer. It *is said to* improve the performance of double glazing by 50 per cent, making it as efficient as triple glazing and effectively better in heat retention than a cavity wall.

Called "*Kappafloat*" energy glass, it is now available in Pilkington "Insulight K" double glazing units. There is a coating on one surface which acts like a mirror to room heat. While allowing the sun's warmth in, it stops heat trying to escape, retaining it within the home.

Another bonus claimed is that the temperature in the inner pane of the unit containing the special glass is a few degrees higher than with ordinary double glazing. This means that condensation is reduced and downdraughts almost eliminated.

Effective U Value—South-Facing



With proper heating controls, room heating can be reduced for the same level of comfort, so saving more fuel, says the company.

Pilkington Flat Glass product development manager Mr David Goodall explained that "Kappafloat" is transparent and allows light and solar heat to pass like ordinary glass. From the outside a slight, satin sheen effect is apparent. From the inside a neutral grey tint may just be discerned, but the view is unimpaired.

Mr David Button, head of marketing services at Pilkington, said: "A practical alternative to the usual sources of energy is the sun, which provides heat even if the sky is overcast, in winter as in summer. It makes sense to take advantage of this free energy and instal large sun-facing windows with effective insulating qualities." With this glass the current emphasis on installing smaller windows is unnecessary.

Initially, Pilkington Kappafloat glass will be sold as complete double glazing units through its *subsidiary*. Eventually it hopes to sell the raw glass to other double glazing manufacturers.

At present the glass is imported from its Swedish factory *but Pilkington is considering* the possibility of UK manufacture which will require investment of about £1m.

Cost of the new double glazing is likely to be between 25 and 50 per cent higher than conventional units.

The company says that Insulight units constructed from 4 mm glass with a 12 mm space between panes has a U value (heat loss) of two compared to three for ordinary double glazing and 5.6 for a single pane. After solar heat gain is added, the effective U value on a south facing wall drops to about 0.25 compared to one for ordinary double glazing or a cavity wall and 3.25 for a single pane.

According to Pilkington, the new Building Regulations restricting the area of single glazed windows to only 12 per cent of the perimeter wall area, has resulted in three house builders, Barratt Homes, Whelmar Homes and Broseley Homes, increasing the use of double-glazing in new homes to be built in England and Wales. Many more building firms are expected to follow suit.

Mr Ken Jackson, strategic projects manager for Pilkington Flat Glass, says: "As a result of the change to double glazing, larger windows will now be possible. This will allow householders to enjoy more daylight and make better use of winter time solar radiation to help light and heat their rooms with the resulting affect on the energy efficiency of their new homes."

Barratt Homes, currently building over 12,000 dwellings a year, has for some time been extensively using double glazing in Scotland, where it has its own timber frame window company to manufacture frames of sufficient rebate depth to take double glazing units.

Whelmar Homes, with a yearly output of 2,000 homes, says it will use its own manufactured double glazing units in new homes in increasing quantities. Broseley Homes, producing over 2,000 dwellings annually, is already including double glazing units as standard in a large housing development in Liverpool.

TONY FRANCE

UK CONTRACTS

More work for Mansell

Four contracts, each worth well over £1m, top the list of a number of awards totalling about £11m made to R. MANSELL. Largest of the latest awards is a £1.7m contract for refurbishment, alterations and extensions at 1 and 16-17 Devonshire Square and 19 Devonshire Row, W1. This has been awarded by MEPC and is due for completion by the end of June. Next highest is a £1.5m contract at 11 and 12 Blomfield Street, EC2 where major alterations are to be carried out for the Corporation of the City of London. At 15 St George's Street, W1 Mansell is reconstructing a five-storey building after damage by fire for Chappell International *Music Publishing. The contract* value is over £1m. A refurbishment job is being undertaken at Birchlands, Birchlands Avenue, SW12, where work valued at over £1.1m is being carried out for the Trustees of the Home for Aged Jews.

Refurbishment at the Savoy

KYLE STEWART (CONTRACTORS) has been awarded the *refurbishment of Savoy Court* East, part of the famous hotel. Undertaken on behalf of London & Leeds, subsidiary of Ladbrokes, the project is worth £7.5m and centres on the creation of offices and flats. Work has just *commenced with internal demolition* and will take in redecoration of Simpson's restaurant. A wide variety of structural alterations and the installation of full air-conditioning and a lift are included in the 19-month contract.

Another new contract is for the design and management of a pharmaceutical manufacturing facility for Beechams at Crawley. Worth £4m, *this project follows* a £1m contract for the construction of warehouses and offices at Southall for Sunlife Properties and a new £3m headquarters for Kennedy & Donkin at Godalming.

★

Building and civil engineering contracts worth over £4.6m have been gained by the GARTWRIGHT GROUP. Largest is a £1.4m housing project at Stockport, Cheshire, for the Northern *Counties Housing Association. It* comprises the building of 75 dwellings, specially designed for elderly persons.

★

BOVIS CONSTRUCTION has been awarded a £4.4m contract to build luxury flats in a conservation area at Regents Park Road, N3, for Bovis Homes. Development is for six blocks of flats comprising 109 units, new roads, car parking, and landscaping, all contained within a *four and half acre site*.

★

TILBURY CONSTRUCTION has been awarded several contracts amounting to £3.25m for building and civil engineering works, which included a housing-*development*, warehouse units, a sewage treatment works and a reservoir, all for public authorities and private clients in the south and south west of England.

UK CONTRACTS OVERSEAS

Riyadh rural electrification

The Riyadh rural electrification project has been awarded to *BICC CONSTRUCTION* a subsidiary of Balfour Beatty Power Construction. The project covers the design, supply of materials and installation of 113 kms of overhead lines on lattice steel towers, with a contract value of *£5m. The lattice steel towers* will be fabricated by Painter Bros also of BBPCL and the conductors manufactured by BICC Metals. A subsequent variation order of about £1.5m has been awarded for a complete fibre *optic telecommunications* system using Fibral Earthwire, a conductor containing an integral optical fibre cable developed and made by BICC Metals. The client for the project is Saudi Consolidated Electric Company (SCECO), central region. Balfour Beatty is part of the BICC Group.

★

The Toronto office of GEORGE WIMPEY CANADA has won a contract from the Ministry of Transportation and Communications for the Brantford section of *Highway 403, Ontario. This contract*, worth about £3m, is starting now and taking 15 months to complete. Work includes grading, drainage, granular base, hot asphalt surfacing and provision of appropriate structures.

★

BALFOURS, UK consulting engineers, is to undertake a study, investigation and design of water supply facilities for six villages in the northern area of Saudi Arabia, in association with Saudi Arabian consultant, Dar Al Riyadh. Future village populations will range from about 400 for the smallest to over 7,000 the largest. In addition to supplying water for the inhabitants, the consultants are to provide drinking water facilities for camels, goats and sheep totalling about 21,000 head.

This project is on behalf of the Ministry of Agriculture and Water, Saudi Arabia.

Longer life for road surfaces

CO-OPERATION BETWEEN Tarmac Roadstone Holdings and Richard Felsinger of Austria has led to the formation of a jointly owned company (Novophalt) to promote the use of road surfacings exploiting the Novophalt process. Invented by R. Felsinger, the surfacings have been in use in Austria for several years.

Novophalt materials are claimed to prolong the service life of busy motorways by using thermoplastic polymers and reactive agents which are added to bitumens in a specially designed binder. Chemical bonding also occurs, resulting in the special properties, stated to be confirmed by tests at the T.R.R.L.

Substantial improvements in resistance to deformation and road life in general arise out of the high cohesive strength and viscosity behaviour of asphalts containing the Novophalt binder, the company says. Where both wearing and base courses are constructed using the Novophalt binder, an increase in pavement life of two to three times is expected. If the materials are used in the wearing course alone, improvements of about 25 per cent are claimed.

Users of the Novophalt modified binder in hot rolled asphalt wearing courses include Tarmac Roadstone (Southern), the City of Westminster and Watford Borough Council.

More from Novophalt on 093 28 67389.

JUST PUBLISHED by the Chipboard Promotion Association is the revised advisory leaflet on "Insulated Ground Floors," which includes detailed costings showing the economy of using chipboard over competitive panel products. The leaflet is available free from CPA, 7A Church Street, Esher, Surrey.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
May 24-28	International Heating, Ventilating and Air Conditioning Exhibition EXPOCLIMA/HEVAC (021-705 6707)	NEC, Birmingham
May 24-31	World Wine Fair and Festival (0272 213381)	Bristol Exhibition Centre
May 25-28	International Word Processing Exhibition and Conference (01-405 6233)	Wembley Conference Centre
May 29-June 6	Manchester Motor Show (0602 51202)	Belle Vue
May 30-June 3	Consumer Electronics Trade Exbn. (01-486 1951)	Earls Court
June 1-4	International Wine and Spirit Trade Fair (021-705 6707)	Olympia
June 3-12	Fine Art and Antiques Fair (01-385 1200)	Olympia
June 6-9	"Times" and "Sunday Times" Business to Business Exhibition (01-729 0677)	Earls Court
June 7-11	Tunnelling '82 International Exhibition and Symposium (01-946 3471)	Brighton
June 10-12	South of England Show (0444 892245)	Ardingly
June 13-17	Self-Service Display Equipment and Shopfitting Exhibition—SHOPEX (01-540 1101)	Olympia
June 14-18	Business Efficiency Exhibition (01-405 6233)	Earls Court
June 16-17	EIA Engineering Exhibition (0403 69390)	Brighton Racecourse
June 21-24	Royal Highland Show (031-333 2444)	Ingliston Showground, Edbgh.
June 21-27	International Food, Wine and Kitchen Exhibition (06284 2442)	Bingley Hall, Birmingham

OVERSEAS TRADE FAIRS AND EXHIBITIONS

May 25-27	Europe Software Exhibition (01-486 1951)	Utrecht
May 25-29	International Wine Exhibition (0727 63213)	Basle
May 30-June 4	National Textile Industry Trade Fair—FENIT (01-486 8686)	Sao Paulo
June 3-10	International Plastics and Rubber Exhibition (01-439 3964)	Paris
June 4-17	International Fair for Printing and Paper Fair—DRUPA (01-409 0956)	Dusseldorf
June 4-5	World Property Exhibition (01-581 2131)	Singapore
June 6-9	International Electrical Exhibition and Congress—INTELECT (01-222 0466)	Cairo
June 7-12	Posidonia International Shipping Exhibition (Athens 32.31.973)	Piraeus
June 10-15	International Agricultural Animal Husbandry and Horticultural Exhibition and Conference—ELMIA-LANTBRUK (0732 850457)	Jonkoping
June 13-18	International Medical Laboratory Exhibition (01-486 8730)	Amsterdam
June 15-19	International Dairy Equipment Exhibition (01-439 (3964)	Paris
June 16-20	International Collectors Fair—ISA (01-236 0911)	Stuttgart
June 22-26	International Port Technology Exhibition — PORTECH (08833 6155)	Singapore
June 28-30	*Videotex Exhibition (09274 28211)*	*New York*

BUSINESS AND MANAGEMENT CONFERENCES

May 24-25	The Economist: Video Conference—Programming and Finance (01-870 5400) (part of International Video Week)	National Film Theatre
May 24-25	AMR International/Euromoney: Financial techniques (01-262 2732)	London Press Centre
May 24-26	Institute for International Research: The Zurich International Corporate Finance Conference 1982 (01-388 2663)	Hotel International, Zurich
May 27	CBI: Statutory sick pay and self certification (01-379 7400)	Centre Point, WC1
June 3-4	AMR/Euromoney: Euromarket Law and Documentation (01-262 2732)	London Press Centre
June 3	IPS: Computers—introducing purchasing systems (0990 23711)	Selfridge Hotel, W1
June 7-8	DIBC (UK): International Bank Operations and Systems—Issues for the future (01-788 5126)	City Conf. Centre, London
June 8	*Oyez/IBC: The Petroleum Futures Market . . . one year on (01-242 2481)*	Royal Garden Hotel, W8
June 9-10	FT Conference: World Electronics—The U.S., Japan and Europe: Competition or Collaboration? (01-621 1355)	Inter. Continental Hotel, W1
June 9	Energy Business Centre: Offshore Projects—Norway (01-439 9021)	Cafe Royal, W1
June 9	*Weisweiller Adfos: Liffe begins in September (01-229 8244)*	London
June 9-10	FT Conference: World Electronics—the U.S., Japan an dEurope: Competition or Collaboration? (01-621 1355)	Inter. Continental Hotel, W1
June 9-11	ESOMAR: Classifying consumers—a need to rethink (Amsterdam 020 44.49.95)	Brugge
June 10	*Kenyan International: European Employment Law*—its impact on company practice (0799 24125)	Hilton Hotel, W1
June 11	ESC: The Stock Exchange Listing Requirements—the Yellow Book (057282 2711)	Bowater Conf. Centre, SW1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

هكذا من الأصل

No person receiving a copy of this Offer for Sale and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation to him, nor should he in any event use such Form unless in the relevant territory such an invitation could lawfully be made to him or such Form could lawfully be used without compliance with any registration or other legal requirements. Any person outside the United Kingdom wishing to make an application hereunder should satisfy himself as to observance of the laws of any relevant territory, including obtaining any requisite governmental or other consents or observing any other requisite formalities.

Copies of this Offer for Sale, having attached thereto the documents referred to below, have been delivered to the Registrar of Companies in England for registration.

This Offer for Sale contains particulars given to comply with the regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Oriflame International SA ("the Company"). The directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the directors accept responsibility accordingly.

Application will be made to the Council of The Stock Exchange for the whole of the share capital of the Company, issued and now being issued, and whether in bearer or registered form, to be admitted to the Official List.

ORIFLAME INTERNATIONAL SA

(a Société Anonyme incorporated under Luxembourg law. R.C. Lux. No. B8835)

OFFER FOR SALE
BY
MORGAN GRENFELL & CO. LIMITED
AND
BLYTH EASTMAN PAINE WEBBER
INTERNATIONAL LIMITED

of 866,634 shares of US $1.50 each at 600p per share payable in full on application.

The shares now offered for sale rank in full for all dividends hereafter paid on the share capital of the Company.

The application list for the shares now offered for sale will open at 10.00 a.m. on Thursday, 27th May, 1982 and may be closed at any time thereafter.

SUMMARY OF INFORMATION

The information below should be read in conjunction with the full text of this Offer for Sale.

The Group

Oriflame International SA is the holding company of an international group, the principal activity of which is the production and marketing, on a direct sales basis, of its own brand of cosmetics. The principal markets for Oriflame's products are in Western Europe and Scandinavia. Sales of Oriflame products have recently commenced in North America and the Far East. The Group also operates a mail order company in Sweden.

Sales and Profits

The sales, profit before tax, profit after tax and earnings per share of the Group for the five years ended 31st December, 1981 and as forecast for the current year ending 31st December, 1982 are as follows:–

Year to 31st December	*Sales* $000	*Profit before tax* $000	*Profit after tax* $000	*Earnings per share* $
1977	11,501	1,473	1,253	0.26
1978	18,625	1,829	1,554	0.33
1979	28,486	3,236	2,860	0.60
1980	37,808	4,429	4,201	0.85
1981	38,359	5,784	4,932	0.97
1982 (forecast)	*40,000*	*6,750*	*6,000*	*1.16*

Earnings per share have been adjusted to take account of the recent capital reorganisation.

The Company has prepared its accounts in dollars since its formation. Accordingly, the published results are sensitive to exchange rates, particularly to the extent that the dollar moves against the currencies in which the Group trades. This sensitivity is emphasised by the fact that hitherto the Group has had no significant sales in dollars. In general, relative strength of the dollar depresses and relative weakness increases Group results.

In order to show the growth of sales based on the underlying local currencies in which the Group trades, the following table sets out the Group's sales figures on the basis of the exchange rates used in compiling the 1981 audited accounts:–

Year to 31st December	*Sales* $000
1977	11,314
1978	17,500
1979	25,154
1980	32,106
1981	38,359
1982 (forecast)	*44,700*

Market Capitalisation

At the Offer for Sale price of 600p ($10.91) and based on the 5,334,080 shares in issue after this Offer for Sale, the market capitalisation of the Company would be £32.0 million ($58.2 million).

Price Earnings Ratio

At the Offer for Sale price of 600p ($10.91) the historic price earnings ratio would be 11.2 and the prospective price earnings ratio 9.4.

Dividends

In the absence of unforeseen circumstances, the directors expect that dividends will be paid in November, 1982 of $0.20 per share and in May, 1983 of $0.30 per share—a total of $0.50 (27.5p) per share. At the Offer for Sale price this represents a prospective gross yield of 4.6 per cent. Dividends will be paid without deduction of any Luxembourg withholding tax.

Adjusted Net Assets

The net assets of the Group attributable to shareholders as at 31st December, 1981, adjusted to show the effects of this Offer for Sale, would be $13.6 million (£7.5 million). This is equivalent to $2.56 (141p) per share.

An exchange rate of £1 = $1.8185, the rate ruling at the close of business on 17th May, 1982, has been used for translation in this Summary of Information. This translation is for illustrative purposes only.

SHARE CAPITAL

Authorised		*Issued and now being issued fully paid*
US $10,500,000	Shares of US $1.50 par value	US $8,001,120

INDEBTEDNESS

At the close of business on 30th April, 1982 the Company and its subsidiaries (in this paragraph referred to as "the Group") had outstanding in aggregate term loans of US $2,223,000 (US $2,113,000 secured) and secured bank overdrafts of US $521,000. Save as aforesaid and apart from intra-Group indebtedness and guarantees, at the close of business on 30th April, 1982 no company in the Group had any loan capital (including term loans) outstanding or created but unissued, or any outstanding mortgages, charges, borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire-purchase commitments, guarantees or other material contingent liabilities. At the close of business on 30th April, 1982 the Group had aggregate cash balances of US $5,634,000. For the purposes of this paragraph amounts in currencies other than US dollars have been translated into dollars at the rates ruling at the close of business on 30th April, 1982.

DIRECTORS AND ADVISERS

Directors
Jonas Bertil Theodor David af Jochnick *Chairman* (Swedish),
14 Avenue de la Réserve, 1640 Rhode St. Genèse, Belgium
Robert Bertil Jonas af Jochnick *Deputy Chairman* (Swedish),
Granliden 4, 18352 Täby, Sweden
Svante Peter Pahlson-Moller (Swedish),
23 Thurloe Square, London SW7 2SD
Cecil Miles Beddow FCA (British),
Flat 8, One Princes Gate, London SW7 1QJ

Registered Office
10 rue Aldringen, 1118 Luxembourg

Issuing Houses
Morgan Grenfell & Co. Limited,
23 Great Winchester Street, London EC2P 2AX
Blyth Eastman Paine Webber International Limited,
11/12 Finsbury Square, London EC2A 1AS

Stockbrokers
de Zoete & Bevan,
25 Finsbury Circus, London EC2M 7EE and at The Stock Exchange

Auditors and Reporting Accountants
Peat, Marwick, Mitchell & Co.,
Arts Center, Avenue des Arts 19H, 1040 Brussels, Belgium

Legal Advisers in Luxembourg
Elvinger & Hoss,
15 Côte d'Eich, 1460 Luxembourg

Solicitors to the Company
Baker & McKenzie,
Aldwych House, Aldwych, London WC2B 4JP

Solicitors to the Offer for Sale
Norton, Rose, Botterell & Roche,
Kempson House, Camomile Street, London EC3A 7AN

Principal Bankers
Skandinaviska Enskilda Banken
Williams & Glyn's Bank plc

Registrars and Transfer Offices:
Principal Registrars
Banque de l'Indochine et de Suez SA Luxembourg,
10 rue Aldringen, 1118 Luxembourg
United Kingdom Branch Registrars
Williams & Glyn's Registrars Limited,
16 Old Broad Street, London EC2N 1DL

Dividend Paying Agents for Bearer Shares
Banque de l'Indochine et de Suez SA Luxembourg,
10 rue Aldringen, 1118 Luxembourg
Banque de l'Indochine et de Suez,
62/64 Bishopsgate, London EC2N 4AR
Banque de l'Indochine et de Suez SA,
1 rue de la Rôtisserie, 1204 Geneva, Switzerland

Receiving Bankers
Williams & Glyn's Bank plc, New Issues Department,
P.O. Box 425, 67 Lombard Street, London EC3P 3DL

GENERAL DESCRIPTION OF THE GROUP

The information in this Offer for Sale has been supplied to the Issuing Houses by the directors of the Company. The terms "Oriflame" and "the Group" are, except where the context otherwise requires, used to refer to the group consisting of the Company, its subsidiaries and associated companies. The word "Oriflame" is also the trade name of the Group's brand of cosmetics. References to "dollars" and "$" are to United States dollars.

Introduction

The Company is the holding company of an international group, the principal activity of which is the production and marketing, on a direct sales basis, of its own brand of cosmetics. The Group also operates a mail order company in Sweden.

Oriflame offers in a number of countries a range of cosmetic products with particular emphasis on skin care treatment. The cosmetics are for the most part marketed direct to the consumer by trained independent consultants, largely through in-home demonstrations. The Group does not sell through traditional retail outlets or to wholesalers. High profitability is achieved through the effective use of direct selling methods, where the advertising costs and the distribution mark-up are lower than those in most traditional sales methods.

It has always been intended, at a suitable time in the Group's development, to obtain a listing for the Company's shares. The size that the Group has now reached, the significance of its United Kingdom activities and the importance and international nature of the London capital market have led the directors to seek a listing in London on The Stock Exchange.

History

The first Oriflame sales company was established in Sweden in 1967 by Jonas af Jochnick and Robert af Jochnick (the chairman and deputy chairman respectively) and a third partner who has ceased to be actively involved in the management of the Group. Their objective was to take advantage of the growing consumer interest in skin care products by developing a limited range of high quality cosmetic items with an emphasis on skin care.

Direct selling, in which trained sales consultants demonstrate the products to groups of people in private homes, was identified as an effective means of introducing these products to the public. At this stage product development and manufacture were carried out by independent sub-contractors in consultation with Oriflame.

Following initial success in Scandinavia, marketing of Oriflame products began in other Western European countries. Currently Oriflame products are sold principally in 13 countries, either through Group sales subsidiaries, associated companies or through independent licensed distributors.

In 1976 the Company acquired an established Swedish mail order company, Lagonda Postorder AB ("Lagonda"), which specialises in the sale of watches, jewellery and other gift items. The acquisition was made with a view to exploiting Oriflame's expertise in distribution, catalogue development and promotion.

1979 saw the completion of construction of a new factory in Dublin, in which approximately one half by value and by volume of the cosmetic products sold by Oriflame are now produced.

In 1980 the Group established its central financial management in Brussels and initiated a management reorganisation which was completed early in 1981. The resultant divisional structure, described under "Management" below, is designed to facilitate further growth.

Other recent important events have included, in 1980, the creation of a joint venture company to market Oriflame products in the Far East and, in 1981, the enlargement of the Dublin factory and the entry into the United States market.

The sales figures shown in this Offer for Sale in respect of cosmetic products represent sales, excluding turnover taxes, to consultants of the sales subsidiaries and to licensed distributors and associated companies.

Group Sales

An analysis of Group sales in 1981 is set out below:–

Country	*Date of commencement of marketing*	*Group sales in 1981* $000	*Percentage*
Sales subsidiaries			
Sweden	1967	4,975	13.0
Denmark	1967	1,605	4.2
Finland	1968	4,411	11.5
Germany	1969	469	1.2
United Kingdom	1970	14,076	36.6
The Netherlands	1972	3,664	9.6
Spain	1978	309	0.8
France	1979	1,737	4.5
Canada	1980	238	0.6
		31,484	82.0
Sales to licensed distributors and associated companies			
Norway	1969	1,165	3.0
Switzerland	1971	228	0.6
Republic of Ireland	1975	399	1.0
Thailand	1981	8	0.1
Other		21	0.1
		1,821	4.8
Mail order sales	*Date of acquisition*		
Sweden	1976	5,054	13.2
		38,359	100.0

The Company has prepared its accounts in dollars since its formation.

ORIFLAME PRODUCTS

Product Range

It is believed that most customers for Oriflame products are women over the age of 20 in the middle income brackets. The range of products is designed to satisfy customers' requirements for basic skin care products; these products are marketed on the basis of low fragrance, natural ingredients and history of low allergy incidence. Prices are aimed to be in the middle of the market. Make-up, fragrance and men's products are also sold in conjunction with skin care products. The Group does not produce or market soap or hair care products to a significant extent. In 1981 the breakdown of sales of Oriflame cosmetic products, which was broadly consistent with previous years, was as follows:–

Product Category	*Percentage*
Skin care	47.6
Make-up	41.1
Fragrance	6.3
Men's products	5.0
	100.0

There are 19 product groups within these four categories. Taking into account separate shades and other variations there are a total of approximately 320 Oriflame cosmetic products. The 12 basic skin care products represented 33 per cent. of Oriflame cosmetic product sales in 1981.

In February, 1982 Oriflame launched "The Oriflame Natural Skincare System," a new product range. This range was developed in the Group's laboratories at its manufacturing headquarters in Dublin. It is based on a series of new formulae and is presented in restyled packaging, which reflects extensive market research over the last three years. The new range complements the Group's existing speciality product range known as "The Royal Velvet Collection" and it is expected that, together with the Group's other existing products, these ranges will form the basis of Group sales in coming years.

Manufacturing

Oriflame has manufactured a proportion of its own cosmetic products since 1979, when production commenced at the Group's factory on the Sandyford Industrial Estate in Dublin. This was completed at a total cost of IR£1,082,000. The factory also houses the Group's laboratories, which supervise quality control work and research and development of new products. The factory was extended during the last year at a total cost of IR£842,000 to enable the expansion of both production capacity and warehousing and office space to take place. Grants totalling IR£517,000 have been received from the Irish Industrial Development Authority.

Manufacturing, which was initially concentrated on the most popular products in the Oriflame range, has been expanded, with the result that in 1981 approximately 50 per cent. of the Group's unit sales of cosmetics, comprising some 110 of Oriflame's cosmetic products, were produced in the factory. The balance is produced by independent sub-contractors to specifications

ORIFLAME INTERNATIONAL SA

continued

approved by Oriflame. Although the Group has hitherto purchased the whole or the major proportion of certain of its requirements for particular raw materials or other items from a single supplier or a limited number of suppliers, all its supply arrangements are constantly under review; there are alternative sources of supply and thus the Group need not depend on any particular supplier.

Each sales subsidiary has warehousing facilities in its respective country of operation.

Oriflame UK Limited's headquarters are in an office and warehouse building in Milton Keynes, which was purpose-built for Oriflame in 1979.

Details of the Group's principal properties are set out under "Statutory and General Information" below.

MARKETING

Direct Selling

Oriflame's cosmetic products are for the most part marketed direct to the consumer by trained independent consultants, largely through in-home demonstrations. High profitability is achieved through the effective use of direct selling methods, where the advertising costs and the distribution mark-up are lower than those in most traditional sales methods.

The directors believe that the principal advantages of Oriflame's in-home direct selling methods are as follows:–

(i) Marketing is based on personal demonstrations of the products, which give the customer an opportunity to sample the products before making a purchase.

(ii) A comparatively short range of the most popular products is emphasised, with consequent economies of scale in manufacturing and stock holding.

(iii) Close control can be maintained over marketing.

(iv) New products can be launched without the necessity for introductory advertising.

(v) New territories can be entered cheaply with low central overheads and low start-up costs.

(vi) Adverse economic conditions appear to have little effect on sales. One of the principal factors affecting sales is the appointment of sales consultants; in a time of recession a profitable part-time occupation is attractive.

Sales Consultants

Other than in France, the sales consultants are independent of the Group and are self-employed, mostly working on a part-time basis.

The number of consultants is of vital importance to the Group, since it is closely related to the volume of sales and thus to profits. In direct selling, turnover of consultants is high, with some remaining associated with the Group for only a short time, although others remain for many years. The Group makes extensive efforts to retain its consultants once they have been appointed; a series of incentive schemes, with a range of prizes, is arranged throughout the year to encourage performance. There are currently approximately 24,000 registered Oriflame consultants, virtually all of whom are women.

The structure of the consultant network in each country is geared both to the identification of new consultants and also to providing favourable conditions for existing consultants. Consultants are generally organised into groups of about ten who are guided by an experienced consultant, designated as a manager. The managers have two sources of income, the profit on sales which they make as consultants and payments made to them by reference to sales to customers by consultants in their group. These groups are in turn part of larger regional groups, the structure of which varies from country to country.

Before new consultants start to sell the Oriflame range of products they receive training in its application and use, as well as in the Group's selling techniques. The Group also provides regular refresher courses; in the United Kingdom, for example, video-recorded programmes are circulated to managers for display to sales consultants.

The Group has evolved a disciplined system for delivery of goods and collection of cash. In most of the countries in which the Group operates, a consultant takes orders from customers and passes them to the central office in her country. Goods are delivered within ten days to the consultant, who then distributes them to the customer and collects payment. A consultant has three weeks from the date of the invoice to her in which to pay for the goods received. No further orders are delivered until any amount overdue is paid. The Group's incidence of bad debts has generally been kept to or under one per cent. of sales. In North America, in line with other direct selling companies there, the consultants purchase, pay for and hold a stock of goods, selling products for immediate payment.

Except in France, the consultants are not employees of the Group and consequently the Group makes no social security (or equivalent) payments in respect of them and has no liability to provide any other such benefit to them. In France, because of local legal requirements, sales consultants are employed by the French sales subsidiary.

The status of the consultant as an independent contractor is an important aspect of direct selling methods in general. The Group seeks to react quickly to any changes when they occur in the taxation and social security regulations relating to the status of consultants in the different countries in which the Group operates.

In the United Kingdom value added tax is levied on the selling company and is based on the suggested retail price payable by the consumer. In other countries turnover taxes are calculated on varying bases.

Direct Selling Methods

In view of the differing characteristics of the markets in which the Group operates, three direct selling methods for Oriflame products are used, namely the Demonstration Method, the SK Method and the Club Method:–

The Demonstration Method is the method predominantly employed by the Group and it is intended that it will be employed by any new sales subsidiaries and licensed distributors.

The method is based on demonstrations given by sales consultants in private homes to groups of about eight to ten invited guests. Each demonstration is arranged at the home of a hostess who invites her friends to it. Although the hostess has no connection with the Group, she is normally rewarded with a gift for the assistance that she has given. At the demonstration the consultant takes orders and then buys goods as described in "Sales Consultants" above. Consultants are provided with a suggested retail price list. Under this method a comparatively short product range of approximately 60 items is offered.

This method is used by sales subsidiaries in The Netherlands, the United Kingdom, France, Spain and Canada, by licensed distributors in Norway, Ireland and Switzerland and by associated companies in Thailand and the United States. The approximate numbers of consultants active in the countries in which this method is operated are:–

Country	*Number*
The Netherlands	920
United Kingdom	4,100
France	610
Spain	220
Canada	110
Norway	1,180
Ireland	480
Switzerland	520
Thailand	240
United States	50

The average value of orders placed by each consultant in a year is approximately $3,500. In the directors' opinion the maximum number of homes that each consultant can effectively cover through the use of this method is about 1,000. The directors consider that in most countries the market is by no means fully covered and that there is considerable scope for further expansion.

By way of example, in the United Kingdom there are currently some 4,100 consultants and an estimated 20 million households. If the UK sales subsidiary were to achieve the ultimate objective of one consultant per 1,000 homes on average, it would have some 20,000 consultants.

The SK Method, which is operated in Sweden and Finland, is similar to the method believed to be used by Avon Products.

The approximate numbers of Oriflame consultants active in the countries in which this method is operated are:–

Country	*Number*
Sweden	9,200
Finland	6,300

SK Method sales are made through individual contact with customers on a one-to-one basis.

The full Oriflame product range is included in a catalogue produced every year. Moreover, each year is divided into about 18 sales campaigns; for each campaign a separate sales catalogue is produced, offering a number of items in the product range at reduced prices.

Sales are made by direct contact with customers at home or at their places of work and, as with the Demonstration Method, the consultant purchases the goods and sells them at a profit to herself, normally on the basis of a suggested retail price list. The nature of this method means that sales per SK consultant tend to be lower than per Demonstration consultant. In the directors' opinion, saturation of the market is not reached until there is one consultant per 200 homes.

The Club Method combines mail order and direct sales techniques and is currently operated by the Group in Denmark and Germany. Members are recruited into clubs and receive catalogues which they use to make their own purchases. They are also encouraged to act as consultants, using the catalogue to obtain orders from their friends.

Codes of Practice

Almost all sales subsidiaries are members, and in some cases are represented on the boards, of their national Direct Sales Association. Membership obliges them to observe the national code of direct selling practice. The national associations in Europe are themselves members of the European Federation of Direct Selling Organisations. In the United Kingdom Oriflame UK Limited is a member of the Direct Sales and Service Association.

The Commission of the European Communities has issued a proposal for a directive on direct selling. The enactment of this directive as currently drafted would have no material effect on the Group, since compliance is already made with substantially all its provisions.

MAIL ORDER IN SWEDEN

In 1976 the Group acquired Lagonda, an established Swedish mail order company. This acquisition was made to expand the Group's activities into areas where its proven expertise in distribution, catalogue development and promotion could be further utilised. Lagonda's catalogue at the time of the acquisition consisted mostly of watches. The product range has subsequently been expanded to cover a wider variety of gift items and consumer electronic products; in 1981 watches accounted for approximately one third of Lagonda's turnover.

Lagonda issues its principal catalogue twice a year; the catalogue issued in January, 1982 had 102 pages and a basic mailing list of about 200,000. In addition, Lagonda sends subsequent abbreviated catalogues to its most active purchasers and buys mailing lists from outside the Group; in 1981 about 1.2 million catalogues were mailed.

The Group has made substantial efforts in Lagonda with a view to improving the quality of the product line, strengthening the management, improving the response to the catalogue and increasing the volume of sales. A new computer system has recently been installed.

However, Lagonda has not been profitable since its acquisition. After a recovery period up to 1980, when the result was close to break-even, the 1981 results were disappointing as the recessionary economic climate in Sweden and the weakness of the Swedish krona put pressure on both sales and margins. Efforts are being made in 1982 to restructure and reduce Lagonda's product line, to increase the size of the mailing list and to reduce sensitivity to seasonal fluctuations, thereby improving the return on turnover.

DIRECTORS, MANAGEMENT AND EMPLOYEES

Directors

Jonas af Jochnick, who is 44, is chairman of the Company and of the Executive Committee and is also currently responsible for the New Markets Division. He was one of the founders of Oriflame and has a law degree from Stockholm University and an MBA from Harvard Business School.

Robert af Jochnick, who is 42 and is the chairman's brother, is deputy chairman of the Company and of the Executive Committee and is responsible for the Scandinavian Sales Division. He has a law degree and an MBA from Stockholm University and was one of the founders of Oriflame.

Svante Pahlson-Moller, who is 40, has been a non-executive director of the Company since 1980. He is an executive director of Blyth Eastman Paine Webber International Limited and has an MBA from Harvard Business School.

Bill Beddow, FCA, who is 61, is a non-executive director. He is chairman of London & Midland Industrials PLC and a non-executive director of other listed and public companies in the United Kingdom. He was appointed a director of the Company in 1982.

None of the directors has a service agreement with the Company or any of its subsidiaries.

Management

The Group is organised in four operating divisions. These report to the Executive Committee, a central committee with overall responsibility for co-ordinating the Group's management. The operating divisions are:–

The Direct Sales Division, covering those of the Group's established markets where the Demonstration Method is used.

The Scandinavian Sales Division, comprising the Group's direct sales and mail order operations in Scandinavia and Germany.

The New Markets Division, which identifies, establishes and develops new markets for the sale of Oriflame products.

The Product Division, covering all activities related to the purchase and manufacture of Oriflame products, their distribution and their sale to licensed distributors.

The Group's management philosophy is to decentralise authority as much as possible. Managing directors of the individual sales companies, who have considerable autonomy, report through their divisional heads to the Executive Committee, which itself reports to the board of directors of the Company. The members of the Executive Committee are Jonas af Jochnick, Robert af Jochnick, Robert Mesterton and Alan Harris.

Robert Mesterton, who is 35, joined the Group in 1978 as managing director of the Swedish sales subsidiary; he was previously managing director of the Swedish company Europcar Rental AB. In 1981 he assumed responsibility for the Direct Sales Division and became managing director of the United Kingdom sales subsidiary.

Alan Harris, who is 34, joined the Group in 1982 and has responsibility for the Product Division. He was previously responsible for manufacturing administration of Avon Cosmetics Limited.

Oriflame has recently recruited a new senior executive to be responsible for the New Markets Division, which the chairman has hitherto administered. Christian Barnekow, who is 38, is currently managing director of Electrolux Belgium. He has been with the Electrolux group for 15 years and before his Belgian appointment was deputy managing director of their Mexican subsidiary and deputy regional manager for their direct sales activities in Latin America. He will join the Group shortly and will become a member of the Executive Committee.

Administration and co-ordination of the Group's financial control is effected by a group financial services centre located in Brussels. The local financial controllers in the manufacturing and sales subsidiaries report to this centre, which is managed by two Group financial controllers and reports to the chairman. The centre is responsible for regular management reporting within the Group and for monitoring the budgets and trading performance of subsidiaries.

Employees

In addition to the French sales staff, the Company and its subsidiaries have approximately 340 employees, of whom about 75 work in the Dublin factory and laboratories and about 30 work for Lagonda; the remainder comprise finance, administrative, data processing, warehousing, distribution and promotional staff. A further 900 part-time sales staff are currently employed by the French sales subsidiary, of whom some 610 are active.

The Company has recently instituted an Employee Share Option Plan to enable key executives, including executive directors of the Company, to benefit from the performance of the Group. A summary of this plan is set out under "Statutory and General Information" below. Some employees receive a significant proportion of their remuneration in the form of bonuses related to their performance and to Group profit.

Employees of the United Kingdom, Irish and Netherlands subsidiaries participate in insured pension schemes for employees. Other subsidiaries do not operate their own pension schemes.

Special Application Forms will be made available in the United Kingdom to employees of the Group to apply for shares in this Offer for Sale. Such applications will be at the Offer for Sale price, but the minimum number of shares which may be applied for is smaller than that required under applications from the public. A maximum of 43,000 shares, representing approximately five per cent. of the shares now being offered for sale, will be reserved for such applications. Details of these arrangements are set out under "Procedure for Application" below.

GROUP STRUCTURE

The Company is registered in Luxembourg. Its status as a Luxembourg holding company results in its only liability to Luxembourg tax (other than capital duty) being an annual charge of 0.2 per cent. on the value of its issued share capital.

The Irish manufacturing subsidiary qualifies until 2000 for reduced rates of corporation tax in the Republic of Ireland in respect of goods manufactured for export. Until 1990 no corporation tax will be payable on profits arising from goods exported. From 1991 to 2000 corporation tax will be payable at the rate of 10 per cent. This subsidiary (as agent for Zetes SA, a member of the Group incorporated in Switzerland) also purchases and sells cosmetic products not manufactured by the Group. The tax treatment of the Company and these two subsidiaries is to a significant extent responsible for the relatively low overall Group tax charge.

The sales subsidiaries in Sweden, Denmark, Finland, Germany, the United Kingdom, The Netherlands, Spain, France and Canada are all wholly-owned subsidiaries, as is Lagonda.

The Company has a 49 per cent. holding in a joint venture company incorporated in Thailand, with a local partner owning the balance. This company was established in 1980 as a first step in marketing Oriflame products throughout the Far East.

In 1981, in order to gain direct access to the United States market, the Company acquired 25 per cent. of the share capital of Oriflame Corporation (a United States company formed by one of Oriflame's original founders). At the same time it acquired all the trademarks owned by that company and an option, which it intends to exercise, to acquire in January, 1983 the outstanding 75 per cent. of that company's share capital (see material contracts (b), (c) and (d) under "Statutory and General Information" below).

In Switzerland, Norway and the Republic of Ireland local conditions make it more suitable for Oriflame's products to be sold through independent licensed distributors, which have exclusive distribution rights in their respective countries of operation. Details regarding these distributorships are set out in "Distributor Arrangements" under "Statutory and General Information" below.

The principal subsidiaries at 31st December, 1981 are listed in the Accountants' Report below.

REGISTERED AND BEARER SHARES

The shares of the Company, which form one class and rank pari passu, may be held either in registered or in bearer form. Application will be made to the Council of The Stock Exchange for listing of the shares in both forms.

Registered shares may, as the holder elects, be registered either on the Company's principal register in Luxembourg or on the United Kingdom branch register. Shares registered on the principal register may be exchanged for bearer shares and vice versa; for a share registered on the branch register to be exchanged for a bearer share it must first be transmitted to the principal register.

Bearer share certificates with coupon sheets attached are available from the principal registrar in Luxembourg.

Successful applicants under this Offer for Sale will receive a Letter of Acceptance, which will be renounceable for a period of approximately four weeks. Unless otherwise instructed, the Company will register the shares represented by Letters of Acceptance on the United Kingdom branch register, which is to be maintained by Williams & Glyn's Registrars Limited.

Further information regarding registered and bearer shares, including the procedures for transmission of shares between registers and the exchange of registered share certificates for bearer share certificates, is set out in "Registered Shares and Bearer Shares" under "Statutory and General Information" below.

PROFIT RECORD, PROFIT FORECAST AND DIVIDENDS

Profit Record

The profit record for the five years ended 31st December, 1981 is set out in the Accountants' Report below. During that period sales increased from $11.5 million to $38.4 million, profit before tax from $1.5 million to $5.8 million and earnings per share from $0.26 to $0.97. These represent increases by factors of 3.34 times in sales, 3.87 times in profit before tax and 3.73 times in earnings per share.

Profit Forecast

Having regard to the unaudited figures for the operating companies in the Group for the first quarter of 1982 and to subsequent management information, the directors have prepared a forecast for the Group for the current year ending 31st December, 1982. On the bases and assumptions set out under "Profit Forecast—Assumptions and Reports" below and in the absence of unforeseen circumstances, the forecast is as follows:–

		$ million
Sales, excluding turnover taxes	approximately	40.00
Profit before tax	approximately	6.75
Tax	approximately	(0.75)
Profit after tax	approximately	6.00
Earnings per share	approximately	$1.16

The published profit and loss account is compiled on the basis of the average exchange rates in the year concerned. The forecast has been compiled on the basis of the actual exchange rates for each of the first four months of 1982 and on the assumption that the exchange rates for the remaining eight months will not vary significantly from those ruling at 30th April, 1982.

The earnings per share have been calculated on the basis of the estimated weighted average number of shares outstanding in the year.

Copies of letters from the Reporting Accountants and the Issuing Houses on this forecast are set out under "Profit Forecast—Assumptions and Reports" below.

Dividends

A dividend equivalent to $0.2143 per share in respect of the year ended 31st December, 1981 was approved on 14th May, 1982 for immediate payment. Holders of shares acquired pursuant to this Offer for Sale will not be entitled to this dividend.

Luxembourg law permits the payment of dividends only if approved by shareholders in general meeting and out of audited realised profits of the Company which have been so approved or out of other distributable reserves. Accordingly, if an interim dividend is to be paid, it must previously have been authorised by the shareholders. At the annual general meeting on 14th May, 1982 the shareholders authorised the directors to pay an interim dividend of such amount as they may determine, up to a maximum of $2.5 million or (if lower) the amount of the Company's distributable reserves. In the absence of unforeseen circumstances the directors expect that the Company will pay an interim dividend in November, 1982 of not less than $0.20 per share ($1.1 million in total), for which the shares now being offered will rank.

In the absence of unforeseen circumstances the directors expect to recommend payment of a dividend in May, 1983 of $0.30 per share which, together with the interim dividend referred to above, would represent a total of $0.50 per share. On the basis of the above forecast this would be covered 2.3 times. The directors expect future dividends to be paid in dollars in November and May in each year.

Holders of shares registered on the Luxembourg register will receive their dividends in dollars.

For dividends payable to holders of shares registered on the United Kingdom branch register, the United Kingdom registrar will, as soon as practicable after the record date for the relevant dividend, sell the appropriate dollars for sterling, without recourse, to enable dividends to be paid in sterling to those shareholders.

Holders of bearer shares may collect their dividends, which will be paid in dollars, from the paying agents in Luxembourg, London or Geneva.

Dividends will be paid without deduction of any Luxembourg withholding or other Luxembourg tax. Information regarding the taxation treatment of dividends received by shareholders is set out in "Tax Effects for Shareholders" under "Statutory and General Information" below.

PROCEEDS OF THE OFFER FOR SALE

Of the total proceeds of this Offer for Sale some £2.35 million will be represented by subscription monies receivable by the Company from the issue of new shares and from the sale of the shares currently in Treasury (prior to deduction of the expenses of this Offer for Sale, which are estimated to be £500,000). The Company has arranged the forward purchase of $3.54 million at £1=$1.8175 for £1.95 million to coincide with receipt of the proceeds.

In addition, 466,667 shares are being sold by existing shareholders, as described in "Issue Arrangements" under "Statutory and General Information" below.

The net proceeds receivable by the Company will be utilised to finance the Group's further expansion and development. The exercise of the option to purchase the outstanding 75 per cent. of the share capital of Oriflame Corporation would cost approximately $1.572 million. Taking into account the estimated net proceeds and existing bank and other facilities and cash balances, the directors are of the opinion that the Company and its subsidiaries will have sufficient working capital for their present requirements.

PROSPECTS

The directors view the Group's future with confidence. In the directors' opinion direct selling and mail order will become more widespread selling methods in most countries and, with its newly enhanced product range, proven selling techniques and experience in entering new markets, the Group is well placed to take advantage of this trend. Oriflame has now established its position as an international direct sales cosmetics group with a consistent record of growth and is in a strong financial position.

Although the Group is in broadly the same markets as other cosmetic manufacturers, the directors do not consider that the Group is materially affected by competition from cosmetics companies selling through traditional retail outlets, since the future growth of the Group is to a large extent dependent on the identification and appointment of sales consultants. The principal competitive pressures to which the Group is subject are from other direct sales organisations, but the directors believe that these will not significantly restrain the growth in the number of Oriflame consultants.

The Group's market share for its various products in the different countries in which it operates is relatively small and, as indicated above, the directors believe that considerable scope exists for future growth through increasing the number of consultants.

At the manufacturing plant in Dublin, which is expected to produce approximately one half of the Oriflame cosmetic products to be sold in 1982, both production and warehousing capacity have been increased to keep pace with growth in sales and to increase the proportion of cosmetic products manufactured by the Group.

The entry into the United States market provides a major challenge and, in the opinion of the directors, an opportunity for growth over many years to come, particularly in view of the high awareness in the United States of direct selling. The Group's United States operations, which are at present small, are on both the West Coast, with an office and warehouse in Los Angeles, and the East Coast, with an office and warehouse in Boston.

The establishment of a joint venture in Thailand represents the first step in developing markets for Oriflame's cosmetic products in the Far East. Initial sales are encouraging. The Group now owns the Oriflame trademarks in most of the major territories in the Far East. The directors believe that direct selling is a growing method of sales in these territories, particularly because of their social structures and the nature of retail trade there.

The Group intends to carry out a feasibility study of the Italian market in 1982, to be followed by test marketing.

The directors intend that the Group will continue to provide a range of high quality products, using its proven direct selling techniques, and thereby continue to grow.

PROFIT FORECAST—ASSUMPTIONS AND REPORTS

Assumptions

The profit forecast set out under "Profit Record, Profit Forecast and Dividends" above has been prepared on the basis of the accounting policies normally adopted by the Company and its subsidiaries and reflects the results shown by unaudited management accounts for the three months ended 31st March, 1982 and subsequent unaudited management information, including forecasts of the results of the manufacturing and sales subsidiaries.

The forecast has been prepared on the following principal bases and assumptions:–

– the appointment and retention of consultants and the average weekly sales per consultant will follow established patterns;

– there will be no significant disruption in the production and distribution of Oriflame and Lagonda products;

– there will be no price controls or other changes in law or its interpretation affecting the Group's activities or the status of consultants;

– the exchange rates of the currencies in which the Group trades and accounts will not alter materially from their relationships at 30th April, 1982; the forecast has been compiled on the basis of actual exchange rates for each of the first four months of 1982 and on the assumption that the exchange rates for the remaining eight months will not vary significantly from those ruling at 30th April, 1982;

– the bases and rates of direct and indirect taxation ruling in each country of operation will not change materially from those currently applicable; and

– interest rates will not alter materially from those ruling at 30th April, 1982.

Reports

The following are copies of letters to the directors of the Company from the Reporting Accountants and the Issuing Houses relating to the profit forecast:–

The Directors,
Oriflame International SA

19th May, 1982

Gentlemen,

We have reviewed the accounting policies and calculations for the profit forecast of Oriflame International SA and its subsidiary companies for the year ending 31st December, 1982 set out in the Offer for Sale dated 19th May, 1982. The forecast reflects the results shown by the unaudited management accounts for the three months ended 31st March, 1982 and subsequent unaudited management information.

In our opinion the forecast (for which the directors are solely responsible), so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made by the directors set out in the Offer for Sale and is presented on a basis consistent with the accounting policies normally adopted by the Company.

Yours faithfully,

PEAT, MARWICK, MITCHELL & Co.

The Directors,
Oriflame International SA

19th May, 1982

Gentlemen,

We refer to the profit forecast of Oriflame International SA and its subsidiaries for the year ending 31st December, 1982 contained in the Offer for Sale dated 19th May, 1982.

We have discussed with officers of the Group the bases and assumptions on which the forecast is made and have considered the letter dated 19th May, 1982 from Peat, Marwick, Mitchell & Co. regarding the accounting bases and calculations adopted in arriving at the forecast.

As a result of these discussions, and in the light of the letter from Peat, Marwick, Mitchell & Co., we have formed the opinion that the profit forecast, for which you are solely responsible, has been prepared after due and careful enquiry.

Yours faithfully,

for MORGAN GRENFELL & CO. LIMITED
Patrick Spens
Director

for BLYTH EASTMAN PAINE WEBBER INTERNATIONAL LIMITED
Richard P. Butler
President

ACCOUNTANTS' REPORT

The following is a copy of a report received from Peat, Marwick, Mitchell & Co. (Brussels), the Company's Auditors and the Reporting Accountants:–

The Directors,
Oriflame International SA
Morgan Grenfell & Co. Limited
Blyth Eastman Paine Webber International Limited

19th May, 1982

Gentlemen,

We have examined the audited accounts of Oriflame International SA ("the Company") and its subsidiary companies, collectively referred to as "the Group", for the periods relevant to this report in accordance with Auditing Standards approved by the Institute of Chartered Accountants in England and Wales. These accounts were prepared under the historical cost convention. We have acted as auditors of the Group in respect of all the relevant periods.

The summarised profit and loss accounts, balance sheets and statements of source and application of funds set out below are based on the audited accounts after making such adjustments as we consider appropriate. In our opinion, these summaries, together with the notes thereon, give, under the convention stated above, a true and fair view of the profits and source and application of funds of the Group for the periods stated and of the state of affairs of the Company and of the Group at the dates stated.

No audited accounts of the Company or of any of its subsidiaries have been prepared in respect of any period subsequent to 31st December, 1981.

Accounting Policies

The significant accounting policies adopted by the Company are as follows:–

(i) Accounting convention
The accounting policies of the Company and its subsidiaries conform with International Accounting Standards (as promulgated by the International Accounting Standards Committee). In areas where there are no International Accounting Standards, the Company has adopted accounting standards which are considered to have international acceptance. The summaries set out below have been prepared under the historical cost convention.

(ii) Basis of consolidation
The consolidated accounts aggregate the assets and liabilities and profits and losses of the Company and its subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation. The consolidated accounts include the Group's share of post acquisition results of associated companies.

(iii) Sales
Sales, which exclude value added tax and other applicable turnover taxes, represent sales to individual sales consultants, associated companies and licensed distributors or, in the case of mail order sales, to individual customers.

(iv) Goodwill and trademarks
Goodwill and trademarks are amortised over a period of 15 years.

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ORIFLAME INTERNATIONAL SA

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(v) Foreign currencies
All amounts stated are in US dollars.
The Company uses the closing rate method, as discussed in Exposure Draft no. 23 of the International Accounting Standards Committee, in accounting for foreign operations. Under this method, assets and liabilities of foreign subsidiaries are translated at the closing rates of exchange and items of income and expense at annual average rates. Exchange differences arising on trading transactions are included in earnings for the year and exchange differences arising on the translation of the accounts of foreign subsidiaries are reported as movements in reserves.

(vi) Stocks
Stocks and work in progress are stated at the lower of cost including attributable overheads (on a first-in, first-out basis) and market value.

(vii) Depreciation
Depreciation is provided so as to write off fixed assets over their estimated useful lives. The depreciation rates in use are:–

Buildings	2 to 5 per cent. per annum
Plant and machinery	15 per cent. per annum
Furniture and equipment	15 to 20 per cent. per annum
Motor vehicles	20 per cent. per annum

Leasehold improvements are amortised over the anticipated remaining life of the lease or ten years, whichever is the shorter.

(viii) Deferred income taxes
(a) The Company and its subsidiaries provide deferred income taxes in respect of all significant timing differences between the recognition of income and expense for accounting and tax purposes.
(b) The Company does not provide income taxes on the undistributed earnings of subsidiaries until actual distribution in the form of dividends.

(ix) Research and development
Research and development costs are written off as incurred.

(x) Pre-operating costs
Costs incurred during the start-up of sales units are written off as incurred.

(xi) Investment grant
The Group has received a capital grant from the Irish Industrial Development Authority in respect of its manufacturing plant. This grant is credited to income in equal instalments over the estimated useful lives of the related assets.

Consolidated Profit and Loss Accounts

	Note	1977	1978	1979	1980	1981
		Years ended 31st December				
		$000	$000	$000	$000	$000
SALES, excluding turnover taxes	1	11,501	18,625	28,486	37,808	38,359
Cost of sales and expenses	2	9,940	16,702	25,218	32,969	32,352
TRADING PROFIT		1,561	1,923	3,268	4,839	6,007
Net interest charges		(88)	(94)	(32)	(410)	(125)
Share of losses of associated companies		—	—	—	—	(98)
PROFIT BEFORE TAX		1,473	1,829	3,236	4,429	5,784
Tax	3	220	275	376	228	852
PROFIT AFTER TAX		1,253	1,554	2,860	4,201	4,932
EARNINGS PER SHARE	5	$0.26	$0.33	$0.60	$0.85	$0.97
DIVIDEND PER SHARE	5 and 13	$0.04	$0.07	$0.13	$0.17	$0.21

The figures for earnings per share and dividend per share shown above reflect the share capital in issue after the capital reorganisation effected on 14th May, 1982. The earnings and dividend per share have been adjusted on the basis described in Note 5.

Balance Sheets

	Note	The Group $000	The Group $000	The Company $000	The Company $000
		31st December, 1981			
FIXED ASSETS	6				
Freehold land and buildings			787		—
Long leasehold land and buildings			3,230		—
Plant and machinery			875		—
Furniture and equipment			349		—
Leasehold improvements			150		—
Motor vehicles			54		—
			5,445		—
NON-CURRENT RECEIVABLES AND OTHER ASSETS	7		555		507
INVESTMENT IN SUBSIDIARY COMPANIES	8		—		10,843
INVESTMENT IN ASSOCIATED COMPANIES	9		195		195
			6,195		11,545
CURRENT ASSETS					
Stocks and work in progress		6,499		—	
Debtors and prepayments		3,882		2,585	
Cash		5,382		1,387	
		15,763		3,972	
CURRENT LIABILITIES					
Creditors and accruals		5,437		3,832	
Current tax		1,197		—	
Current portion of long term loans	10	355		—	
Bank overdrafts and short term loans	10	1,225		—	
		8,214		3,832	
NET CURRENT ASSETS			7,549		140
			13,744		11,685
LONG TERM LOANS	10		(1,274)		—
DEFERRED TAX	4		(643)		—
DEFERRED INVESTMENT GRANTS	15		(761)		—
NET TANGIBLE ASSETS			11,066		11,685
GOODWILL AND TRADEMARKS	11		884		265
NET ASSETS			11,950		11,950
FINANCED BY					
Share capital	12		2,206		2,206
Paid-in surplus	13		761		761
Reserves	13		10,733		10,733
			13,700		13,700
Less cost of Treasury shares	12		(1,750)		(1,750)
SHAREHOLDERS' EQUITY			11,950		11,950

Adjusted Net Assets

	Note	The Group $000	The Company $000
NET ASSETS at 31st December, 1981		11,950	11,950
Estimated increase in net assets as a result of the Offer for Sale	16	2,733	2,733
Less: payment of dividend relating to 1981	13	(1,042)	(1,042)
ADJUSTED NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS		13,641	13,641

Statements of Source and Application of Funds

	1977	1978	1979	1980	1981
	Years ended 31st December				
	$000	$000	$000	$000	$000
SOURCE OF FUNDS					
Profit before tax	1,473	1,829	3,236	4,429	5,784
Adjustment for items not involving the movement of funds:–					
Depreciation	18	107	240	263	219
Results of associated companies	—	—	—	—	98
Exchange loss (profit) on convertible debentures	—	166	13	(36)	—
Own shares previously repurchased issued as profit sharing	—	62	150	—	—
Other (net)	47	66	61	61	61
Total generated from operations	1,538	2,230	3,700	4,717	6,162
Funds from other sources:–					
Shares issued	36	139	—	30	30
Convertible debentures issued	730	—	—	—	—
Increase in long term loans	—	61	393	—	215
Increase in other loans	—	—	—	17	27
Investment grants (net)	—	178	316	104	163
Decrease in non-current receivables and other assets	97	76	—	—	—
	2,401	2,684	4,909	4,868	6,597
APPLICATION OF FUNDS					
Dividends paid	154	203	359	615	871
Tax paid	50	2	45	306	338
Net additions to fixed assets	260	1,420	2,728	1,173	450
Purchase of goodwill on acquisition	349	219	—	—	—
Investments in associates	—	—	—	71	223
Repayment of loans	91	—	—	62	—
Purchase of trademarks	—	—	—	—	250
Increase in non-current assets	—	—	117	409	1
Debenture repayments	—	—	—	31	—
Shares repurchased into Treasury	66	78	150	—	1,750
	970	1,922	3,399	2,667	3,932
Translation gains (losses)	345	740	267	(829)	(2,215)
Net increase (decrease) in working capital	1,776	1,502	1,777	1,372	450
Made up as follows:–					
Stocks	386	1,682	4,145	(33)	(2,096)
Debtors and prepayments	189	1,172	1,156	592	(440)
Creditors and accruals	(814)	(1,794)	(2,905)	1,314	261
	(239)	1,060	2,396	1,873	(2,275)
Movement in net liquid funds	2,015	442	(619)	(501)	2,725
	1,776	1,502	1,777	1,372	450

Summary of the effects of the acquisition of subsidiaries:–	1977	1978
	$000	$000
Net assets acquired:–		
Fixed assets (net)	40	35
Goodwill	349	219
Net liabilities	(254)	(97)
	135	157
Net consideration:–		
In cash	135	65
In shares	—	92
	135	157

Notes

1. Analysis of Sales by Activity

	1977	1978	1979	1980	1981
	Years ended 31st December				
	$000	$000	$000	$000	$000
Oriflame cosmetic products	9,286	14,705	23,785	31,483	33,305
Mail order	2,215	3,920	4,701	6,325	5,054
	11,501	18,625	28,486	37,808	38,359

2. Cost of Sales and Expenses

	1977	1978	1979	1980	1981
	Years ended 31st December				
	$000	$000	$000	$000	$000
Included in cost of sales and expenses are the following:–					
Depreciation	18	107	240	263	219
Amortisation of goodwill	47	61	61	61	61
Hire of equipment	15	15	48	188	281
Loss (profit) on foreign exchange (see "Accounting Policies" above)	175	551	288	433	(94)
Directors' emoluments	103	125	158	128	154
Auditors' remuneration	41	94	154	167	144

3. Tax

	1977	1978	1979	1980	1981
	Years ended 31st December				
	$000	$000	$000	$000	$000
Current	215	105	284	428	785
Deferred	5	170	92	153	67
Reduction in deferred tax provided in prior years	—	—	—	(353)	—
	220	275	376	228	852

The Company, which qualifies as a holding company in Luxembourg, has no trading activities and is, as a result, exempt from tax except for taxes on capital. Accordingly, the provisions for income taxes reflected in the accompanying profit and loss accounts relate principally to foreign income taxes provided on the earnings of foreign subsidiaries.

During 1981 the United Kingdom Government enacted a proposal whereby the "claw-back" provision of the United Kingdom stock relief scheme would, in most cases, cease to apply. The Company gave effect to these changes in computing income taxes for 1980. As a result, deferred taxes which were established in prior years in the amount of $353,000 relative to the "claw-back" provision were reversed in 1980 with the tax charge for that year being reduced by $75,000.

The Group's tax charge for the years ended 31st December, 1981 and 1980 was reduced by the absorption of tax losses arising in prior years. Had such losses not been available, additional taxes amounting to approximately $91,000 (1980: $400,000) would have been payable.

4. Deferred Tax

The deferred tax liability at 31st December, 1981 results from the following timing differences giving rise to deferred taxes in the amounts indicated:–

	$000
Differences arising on inventory between valuations for tax and accounting purposes	360
Excess of tax over book depreciation	158
Other short term timing differences	125
	643

5. Earnings per Share

Earnings per share have been calculated by dividing the profit after taxation by the weighted average number of shares of $10 each in issue and outstanding during the year, as follows:–

	1977	1978	1979	1980	1981
Number of shares of $10 each	204,010	204,514	203,819	212,369	217,141
Profit after tax	$1,253,000	$1,554,000	$2,860,000	$4,201,000	$4,932,000
Earnings per share	$6.14	$7.60	$14.03	$19.78	$22.71

As explained in Note 12, a capital reorganisation took place on 14th May, 1982, involving a reduction in nominal value per share from $10 to $1.50 and an issue of five additional shares of $1.50 each for every two shares of $1.50 then held, by way of capitalisation of reserves. This resulted in every three shares of $10 previously held becoming represented by 70 shares of $1.50 each. The earnings per share below have been adjusted to reflect this capital reorganisation:–

	1977	1978	1979	1980	1981
Earnings per share	$0.26	$0.33	$0.60	$0.85	$0.97

6. Fixed Assets

The net book value of the Group's fixed assets at 31st December, 1981 was:–

	Cost	Accumulated depreciation	Net book value
	$000	$000	$000
Freehold land and buildings	849	62	787
Long leasehold land and buildings	3,318	88	3,230
Plant and machinery	1,275	400	875
Furniture and equipment	684	335	349
Leasehold improvements	216	66	150
Motor vehicles	98	44	54
	6,440	995	5,445

7. Other Assets

During 1980 the Company incurred costs of approximately $327,000 relating to preliminary work in connection with the Offer for Sale. These costs, which are included in non-current receivables and other assets at 31st December, 1981, will be written off against the proceeds of the Offer for Sale and have been deducted in the calculation of adjusted net assets set out above.

8. Subsidiaries

At 31st December, 1981 the Company had the following principal subsidiaries:–

	Country of incorporation	Date of incorporation	Issued share capital	
Oriflame Canada Ltd.	Canada	24.1.80	Can $	100,000
Oriflame Cosmeticos SA	Spain	29.7.81	Pts	10,000,000
Oriflame Finland Oy	Finland	22.11.68	FM	700,000
Oriflame France SarL	France	15.2.79	FF	1,000,000
Oriflame International AB	Sweden	13.9.67	SKr	300,000
Oriflame International ApS	Denmark	1.7.78	DKr	30,000
Oriflame Kosmetiek BV	The Netherlands	8.6.74	Dfl	1,000,000
Oriflame Management SA	Belgium	25.8.80	BF	1,250,000
Oriflame Manufacturing Ltd.	Ireland	14.10.77	IR£	1,589,973
Oriflame Services Ltd.	England	14.5.79	£	10,000
Oriflame UK Ltd.	England	1.10.70	£	250,000
Oriflame Vertriebs GmbH	Germany	8.5.69	DM	300,000
Zetes SA	Switzerland	12.5.69	SwF	150,000
Lagonda Postorder AB	Sweden	19.3.24	SKr	1,909,000
Lagonda Finans AB	Sweden	21.11.27	SKr	500,000
Lagonda Butiks AB	Sweden	13.1.50	SKr	50,000
Lagonda UR AB	Sweden	8.7.35	SKr	350,000

As stated in Note 13, the Company's investments in subsidiary companies are revalued each year to reflect their underlying equity values.

At 31st December, 1981 the Company's investment in subsidiary companies comprised:–

	$000
Investment (at underlying equity value)	8,621
Amounts due	2,222
	10,843

9. Associated Companies

At 31st December, 1981 the Group held the following investments in associated companies:–

	Country of incorporation	Date of incorporation	Issued share capital		Percentage held
Oriflame Corporation	USA	26.11.71	$	133,333	25
Arbonne AG	Switzerland	8.2.80	SwF	300,000	25
Oriflame (Thai) Ltd.	Thailand	18.12.80	Baht	3,000,000	49

The Group's interest in its associated companies at 31st December, 1981 was as follows:–

	$000
Shares at cost	293
Share of post acquisition losses	(98)
	195

At 31st December, 1981 the following amounts were due from associated companies:–

	$000
8 per cent. loan repayable in 1984 secured by 500 of the Company's shares of $10 each (now represented by 11,667 shares of $1.50 each (see Note 12))	100
Non-interest bearing unsecured loan	80
	180

In 1981, the Company subscribed for 25 per cent. of the capital of Oriflame Corporation, a company previously wholly owned by a former non-executive director of the Company. In addition to the equity investment, the Company acquired an option, exercisable on 5th January, 1983, to acquire the remaining 75 per cent. of the issued share capital for an amount of $1,572,000 (subject to reduction under certain circumstances). Subsequent to 31st December, 1981 the Company has issued guarantees to banks amounting to $250,000 in respect of this associate and has taken up its share of a rights issue of another associated company at a cost of $26,000.

The unaudited accounts of Oriflame Corporation for the year to 31st December, 1981 disclose sales of $617,000 and a loss of $220,000. The net tangible assets at the balance sheet date are stated at $7,000.

10. Bank Overdrafts and Loans

The bank overdrafts and loans were repayable by the Group at 31st December, 1981 as follows:–

	$000
One year or less or on demand	1,580
Between one and two years	355
Between two and five years	640
In excess of five years	279
	2,854

Of the bank overdrafts and short term loans $1,140,000 were secured by floating charges on the assets of the respective group companies. Long term loans (including the current portion) amounting to $1,575,000 are secured by fixed charges on property and by floating charges on current assets in the respective Group companies.

11. Goodwill and Trademarks

At 31st December, 1981 goodwill and trademarks amounted respectively to $634,000 and $250,000.

12. Share Capital

At 31st December, 1981 the share capital of the Company was as follows:–

	$
Authorised share capital of 300,000 shares of $10 each	3,000,000
Issued share capital of 220,632 shares of $10 each	2,206,320

At 31st December, 1981 the Company held in Treasury 10,000 of its own shares of $10 each which it had repurchased for $1,750,000 and had commitments to repurchase a further 2,170 shares for a total cost of $305,000. These repurchases were duly effected in January, 1982.

At 31st December, 1981 the Company had outstanding commitments to deliver 3,000 new shares to employees at nominal value which were duly effected on 14th April, 1982.

On 14th May, 1982 the Company completed a capital reorganisation as follows:–
(i) 20 shares of $1.50 each were exchanged for every 3 shares of $10 each in issue.
(ii) 5 additional shares of $1.50 each were issued for every 2 shares of $1.50 each in issue by way of capitalisation of paid-in surplus and retained earnings of $5,590,800.
(iii) The authorised share capital was increased to $10,500,000 represented by 7,000,000 shares of $1.50 each.

On 18th May, 1982 the Company resolved, subject to certain conditions, to issue 116,000 shares of $1.50 each in connection with the Offer for Sale, resulting in a total of 5,334,080 shares of $1.50 each in issue or being issued at the date of the Offer for Sale.

13. Movements on Reserves

Movements on reserves of the Group during the period covered by this report have been as follows:–

	1977	1978	1979	1980	1981
	Years ended 31st December				
	$000	$000	$000	$000	$000
Paid-in surplus					
Balance at beginning of year	15	15	15	15	761
Share premium on conversion of debentures	—	—	—	746	—
Paid-in surplus at end of year	15	15	15	761	761
Reserves					
(i) Retained earnings					
Balance at beginning of year	750	2,194	3,140	5,836	8,615
Profit for the year after tax	1,253	1,554	2,860	4,201	4,932
Movements in reserves resulting from translation	345	740	267	(829)	(2,215)
Dividends paid	(154)	(203)	(359)	(615)	(871)
Capitalisation into bonus issue	—	(1,025)	—	—	—
Transfer (to) from legal reserves	—	(120)	(72)	22	(5)
Balance at end of year	2,194	3,140	5,836	8,615	10,456
(ii) Legal reserves					
Balance at beginning of year	102	102	222	294	272
Transfer to (from) reserves during the year	—	120	72	(22)	5
Balance at end of year	102	222	294	272	277
Reserves at end of year	2,296	3,362	6,130	8,887	10,733

The Company and the subsidiaries incorporated in Sweden, Switzerland and Belgium are required by law to appropriate to legal reserves amounts ranging between 5 per cent. and 10 per cent. of their annual statutory net profits until such time as these reserves equal fixed percentages ranging between 10 per cent. and 20 per cent. of the companies' nominal capitals. Once appropriated such reserves are not available for distribution but in certain cases may be released to revenue reserves in the event of a trading loss being incurred.

The reserves of the Company are equal to those of the Group as a result of annual revaluations of the Company's investments to reflect the underlying net asset value of the subsidiaries. However, such revaluation surpluses are not distributable until realised in the Company.

Dividends paid each year are in respect of the results of the preceding year and are paid without deduction of any Luxembourg withholding taxes. An immediate dividend payment of $5.00 per share of $10 outstanding on 25th March, 1982 (total cost $1,042,310) was approved at the annual general meeting of the Company held on 14th May, 1982, at which the directors were also authorised to pay, at their discretion, a further dividend on all shares outstanding at a date to be determined by the directors.

No provision is made in the accounts for proposed dividends.

14. Lease Commitments

At 31st December, 1981 the Company had minimum lease commitments under operating leases as follows:–

	Property	Plant and equipment	Motor vehicles	Total
	$000	$000	$000	$000
1982	249	102	193	544
1983	244	66	88	398
1984	244	54	1	299
1985	173	10	—	183
1986	150	2	—	152
Thereafter in aggregate to 2077	2,047	—	—	2,047

15. Capital Commitments and Contingent Liabilities

(i) Plant and machinery at 31st December, 1981 included $281,600 (net of depreciation of $85,000) in respect of leased plant under a capital lease. Future annual minimum lease payments under the capital lease amount to $172,000 to 1986.

(ii) At 31st December, 1981 subsidiaries had authorised and contracted capital expenditure commitments of $225,000.

(iii) One subsidiary has received a capital grant of $810,000. There is a contingent liability to repay all or part of the grant if certain circumstances set out in the agreement occur. The amount credited to earnings to date is $49,000.

16. Estimated Increase in Net Assets as a Result of the Offer for Sale

Morgan Grenfell & Co. Limited and Blyth Eastman Paine Webber International Limited have agreed, conditionally on the Council of The Stock Exchange admitting to the Official List the share capital of the Company, to subscribe for 116,000 new shares of $1.50 each and to purchase 283,967 Treasury shares of $1.50 each at 588p per share. The Offer for Sale would result in an increase in the net assets of the Company as follows:–

	$000
Estimated proceeds of the Offer for Sale to the Company	4,274
Cost of Treasury shares purchased since 31st December, 1981	(305)
Estimated expenses of the Offer for Sale payable by the Company	(909)
Expenses incurred in 1980 (Note 7)	(327)
Estimated increase in net assets	2,733

Yours faithfully,
PEAT, MARWICK, MITCHELL & CO.

STATUTORY AND GENERAL INFORMATION

Share Capital

(a) (i) Immediately prior to 19th May, 1980 the issued share capital of the Company consisted of 217,632 shares of $10 each fully paid.
(ii) On 19th May, 1981 3,000 shares of $10 each were subscribed for cash at par to be held by employees of Group companies.
(iii) On 14th April, 1982 3,000 shares of $10 each were subscribed for cash at par to be held by employees of Group companies.
(iv) On 14th May, 1982 the Company:–
— exchanged every three issued and unissued shares of $10 each for 20 shares of $1.50 each;
— issued 3,727,200 shares of $1.50 each credited as fully paid to existing shareholders on the basis of five additional shares of $1.50 each for every two shares of $1.50 each held, by way of capitalisation of paid-in surplus and retained earnings; and
— increased the authorised share capital to $10.5 million represented by 7 million shares of $1.50 each.
(v) On 18th May, 1982, conditionally on the Council of The Stock Exchange granting on or before 2nd June, 1982 a listing for the shares of the Company, issued and now being issued, and conditionally on payment therefor being received by the Company, the directors resolved to issue to the Issuing Houses 116,000 new shares of $1.50 each at a price of 588p per share, representing an aggregate subscription price of £682,000 to be payable to the Company.
(vi) Save as aforesaid, there has been no alteration in the share capital of the Company in the two years preceding the date of this Offer for Sale.
(vii) Following this Offer for Sale 1,665,920 shares of $1.50 each of the Company would remain unissued, of which 250,000 shares have been reserved for the exercise of options as described in "Employee Share Option Plan" below. Excluding unissued shares reserved for the exercise of such options, 20.2 per cent. of the authorised shares remains unissued. Save as disclosed herein, there is no present intention to issue any of the authorised but unissued share capital of the Company and without the prior approval of the Company in general meeting:–
— no material issue of shares (other than to shareholders pro rata to their existing holdings) will be made within one year; and
— no issue of shares will be made which would effectively alter the control of the Company.

(b) (i) Immediately prior to 19th May, 1980 no shares were held in Treasury.
(ii) On 1st October, 1981 the Company purchased 10,000 shares of $10 each for $1,750,000.
(iii) At 31st December, 1981 the Company had commitments to repurchase 2,170 shares of $10 each for a total cost of $305,000. These repurchases were effected in January, 1982.
(iv) The above-mentioned capital reorganisation on 14th May, 1982 has resulted in 283,967 shares of $1.50 each being held in Treasury immediately prior to this Offer for Sale, all of which form part of this Offer for Sale. Accordingly, immediately following this Offer for Sale, no shares will be held in Treasury.

Registered Shares and Bearer Shares

The Company's shares, which form one class and rank pari passu, may be held either in registered or in bearer form. Application is being made to the Council of The Stock Exchange for listing of the shares in both registered and bearer form.

(a) Registered shares
Holders of registered shares may, as they elect, be registered either on the principal register in Luxembourg or on the United Kingdom branch register. Shares registered on the principal register may be transmitted to the branch register and vice versa. Shares registered on the principal register may also be exchanged for bearer shares. Before shares registered on the branch register may be exchanged for bearer shares, the holder must first transmit them to the principal register.

Shares registered on the branch register will be transferable in accordance with normal United Kingdom practice. Transfers will be subject to the usual rates of United Kingdom transfer duty.

(b) Bearer shares
Bearer share certificates will be issued by the registrar of the principal register in Luxembourg and will be available in denominations of 1, 10, 100, 1,000 and 5,000 shares. Bearer share certificates will have attached to them coupon sheets for use, inter alia, for the collection of dividends.

A holder of bearer shares may exchange all or any of those shares for shares registered on the principal register. If he wishes to exchange all or any of those shares for shares registered on the branch register he must first exchange his bearer shares for shares registered on the principal register and then transmit his registered holding to the branch register.

Holders of bearer share certificates should be aware of the security risk attached to such holdings, which by their nature are, so far as the Company is concerned, the property of the person who holds them. Accordingly, bearer share certificates should be lodged with a bank or other suitable depositary and insured against loss.

(c) Procedure for exchange and transmission
Instructions regarding the transmission of registered shares between the principal register and the branch register and for the exchange of registered share certificates for bearer share certificates (and vice versa) are printed on the reverse of share certificates. The Company may require payment of a charge in respect of any transmission or exchange involving the issue of bearer certificates.

Employee Share Option Plan

At a general meeting held on 14th May, 1982 a resolution was passed adopting an employee share option plan ("the Plan") to enable executive directors and key executive employees of the Company, its subsidiaries and any company in which any such company has an interest of at least 45 per cent. to be granted options to subscribe for shares of the Company. The principal provisions of the Plan are as follows:–
(a) The maximum number of shares for which options to subscribe may be granted under the Plan is 250,000, representing approximately 4.7 per cent. of the issued share capital following this Offer for Sale.
(b) The directors may establish subsidiary plans to take account of local laws in the countries in which the Group operates, subject to the overriding provisions of the Plan.
(c) Options are not usually exercisable prior to the third or subsequent to the seventh anniversary of the date of their grant. Options must be exercised at not less than the market price of the shares ruling on the business day preceding the date of grant (or at the nominal value, if higher).
(d) Not more than 25 per cent. of the shares available under the Plan may be allocated to one person, nor may the total option price of shares allocated to one person exceed four times that person's annual remuneration; the maximum remuneration which may be taken into account for this purpose is $75,000 per annum.
(e) No option may be granted or exercised between 1st February and the date of publication of the audited consolidated accounts of the Group or between 1st August and the date of publication of the Group's half-year results.
(f) The directors are required at all times to endeavour to maintain sufficient authorised but unissued shares to satisfy the exercise in full of all options granted.
(g) The duration of the Plan is ten years from 3rd June, 1982.

Directors' and Others Interests

Immediately following this Offer for Sale, the interests of the directors (all beneficial), which would be required to appear on a register maintained under the provisions of the Companies Act 1967 (as amended) if the Company were subject to the provisions of that Act, will be as follows:–

	Shares of $1.50 each
J. af Jochnick	1,474,866
R. af Jochnick	93,646
S.P. Pahlson-Moller	26,647
C.M. Beddow	2,334

In addition, a discretionary trust, of which certain members of the af Jochnick family are possible beneficiaries, will, immediately following this Offer for Sale, hold 1,205,866 shares of $1.50 each.

Save as disclosed herein, the directors are not aware of any shareholdings which will, immediately following this Offer for Sale, represent five per cent. or more of the enlarged issued share capital of the Company.

Under the Offer for Sale Agreement, described in "Issue Arrangements" below, each of the directors has undertaken for himself and on behalf of persons holding shares in which he is interested (within the meaning given to such expression by the Companies Act 1967, as amended), neither to apply for any shares now being offered for sale nor, without the prior consent of the Issuing Houses, to sell any shares of the Company until one year after the date of this Offer for Sale. Equivalent undertakings have been given by the trustee of the discretionary trust.

Immediately following this Offer for Sale the directors, their families and the discretionary trust will hold 53 per cent. of the enlarged issued share capital and (assuming full subscription of the 43,000 shares reserved for employees as part of this Offer for Sale) the directors believe that employees and outside investors will hold approximately 8 per cent. and 39 per cent. respectively.

Issue Arrangements

Under material contract (a) referred to under "Material Contracts" below, the Issuing Houses have agreed, conditionally on the Council of The Stock Exchange admitting to the Official List not later than 2nd June, 1982 the shares of the Company, issued and now being issued, and whether in bearer or registered form: (i) to subscribe in cash for 116,000 new shares of $1.50 each of the Company at 588p per share; (ii) to purchase all the 283,967 shares held by the Company in Treasury at 588p per share; (iii) to purchase 116,000 shares of $1.50 each of the Company from J. af Jochnick, 46,400 from R. af Jochnick and 304,267 shares from others (totalling 466,667 shares) at a price of 588p per share; and (iv) to offer the resulting total of 866,634 shares for sale to the public at 600p per share.

Under this contract, the Issuing Houses will pay underwriting commissions of 1¼ per cent. on the price at which the shares are being offered for sale, their own legal expenses and a commission to the brokers. The Company will pay all other expenses of or incidental to this Offer for Sale and the transactions associated therewith. The total expenses payable by the Company are estimated to amount to £500,000 exclusive of any value added tax or other turnover taxes.

Payment accompanying applications must be in sterling and will be retained by Williams & Glyn's Bank plc in a separate bank account in sterling until 2nd June, 1982, when £1.95 million of the estimated net proceeds of this Offer for Sale receivable by the Company will be converted into dollars under a forward foreign exchange contract entered into by the Company with Morgan Grenfell & Co. Limited on 17th May, 1982. Application monies in respect of applications which are not accepted for any shares applied for, or in respect of the balance of applications which are accepted for fewer shares than the number applied for, will be returned to applicants in sterling.

Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into within the two years preceding the date of this Offer for Sale and are or may be material:–

(a) the contract dated 19th May, 1982, between the Company (i), J. af Jochnick as principal vendor (ii) the directors of the Company (iii) and the Issuing Houses (iv) and the forward foreign-exchange contract dated 17th May, 1982 between the Company (i) and Morgan Grenfell & Co., Limited (ii), being the contracts described in "Issue Arrangements" above;

(b) an escrow agreement dated 1st October, 1981 between Mrs. A. Dahlman (i), the Company (ii) and Banque Scandinave en Suisse (iii) under which there is being held in escrow a stock purchase agreement for the acquisition by the Company of 1,000,000 shares of common stock in Oriflame Corporation, a United States corporation, for $1,572,000 in cash. The Company has the right exercisable on 5th January, 1983 to acquire such shares on the terms of the stock purchase agreement. The price is subject to reduction in the event of a breach of certain representations and warranties (including a warranty as to the absence of undisclosed claims or liabilities) made by Mrs. Dahlman. Mrs. Dahlman's obligations under the stock purchase agreement, which would become effective on exercise of the Company's option, are guaranteed by Mr. B. Hellsten under a letter of guarantee also dated 1st October, 1981;

(c) a contract dated 1st October, 1981 between Oriflame Corporation (i) and the Company (ii) under which the Company agreed to subscribe for 333,333 shares of common stock in Oriflame Corporation for an aggregate subscription price of $199,000 and to purchase certain United States trade mark rights for a price of $1,000;

(d) a contract dated 1st October, 1981 between Mrs. A. Dahlman (i) and the Company (ii) for the purchase by the Company of certain non-United States trade mark rights for $250,000 in cash;

(e) a contract dated 1st October, 1981 between Mrs. A. Dahlman (i) and the Company (ii) for the purchase by the Company of 10,000 of its own shares for $1,750,000 in cash;

(f) a joint venture agreement dated 20th October, 1980 between Lex International Co. Limited, a Thai company, (i) and the Company (ii) for the establishment of a joint venture company in Thailand and the grant of exclusive distributorship rights for Oriflame products in Thailand and certain other countries in the Far East; and

(g) a grant agreement dated 14th August, 1980 between the Irish Industrial Development Authority (i) and Oriflame Manufacturing Limited (ii) under which the Industrial Development Authority agreed, on the terms set out therein, to grant to Oriflame Manufacturing Limited an amount equal to the lesser of IR£331,400 and 30 per cent. of the actual expenditure on the construction of the factory in Dublin and the provision of machinery and equipment therefor and a supplemental agreement between the same parties dated 8th April, 1981 relating to the use of a portion of the same amount for the purpose of leasing certain machinery and equipment.

Distributor Arrangements

Oriflame products are marketed in Norway, Iceland, Switzerland and the Republic of Ireland by the following independent licensed distributors:–

Country	Licensed distributor
Norway and Iceland	House of Beauty A/S
Switzerland	Oriflame Kosmetiek AG
Republic of Ireland	Oriflame Cosmetics (Ireland) Limited

Under the terms of agreements of indefinite duration entered into with companies in the Group, Oriflame Cosmetics (Ireland) Limited and Oriflame Kosmetiek AG have exclusive rights to distribute Oriflame products in their respective territories.

Under the terms of an agreement of indefinite duration with Zetes SA (a member of the Group incorporated in Switzerland), House of Beauty A/S has an exclusive royalty-free licence to use and exploit all Oriflame formulae and future product formulations, trade marks and trade names in Norway, Iceland and the Faroe Islands.

Each of the licensed distributors has undertaken to purchase its product requirements from the Group and to sell such products on the basis of direct selling methods used by the Group. The Group has received payment of licence fees from the distributor in Norway.

Luxembourg Law and Articles of Incorporation

The Company was incorporated in the Grand Duchy of Luxembourg as a société anonyme on 22nd January, 1970 under the Law of 10th August, 1915 governing commercial companies (as amended) and qualifies under the Law of 31st July, 1929 governing holding companies (as amended). Under Luxembourg law a société anonyme has limited liability.

The following is a summary of certain provisions of the Articles of Incorporation and of relevant provisions of Luxembourg law as currently in force:–

(a) Duration
The Company was initially incorporated for a period of 30 years from the date of its incorporation, this being the maximum duration permitted under Luxembourg law. However, the duration of the Company may be extended by resolution of the Company in general meeting; on 14th May, 1982 it was resolved that the period of incorporation of the Company should be 30 years from that date. The directors intend to recommend renewals of the Company's period of incorporation at appropriate times.

(b) Share rights
(i) All the shares, whether in registered or bearer form, comprise one class and rank pari passu. Shareholders are entitled to participate pro rata according to the amounts paid up on their respective shareholdings both in dividends declared or approved in general meeting and in any return of capital on a reduction of capital or on a winding-up.

(ii) At general meetings each shareholder present in person or by proxy is entitled to one vote in respect of each share of which he is the holder, provided that, under Luxembourg law, except on a resolution to amend the Articles (when no limitation applies), no person is entitled to cast votes at any meeting whether in person or by proxy in respect of more than one fifth of the issued share capital or more than two fifths of the share capital represented at the meeting.

(c) General meetings
(i) Annual general meetings are to be held in the municipality of the registered office on the first Wednesday in May at 11.00 a.m. or, if this is not a business day, at the same time on the first business day thereafter. General meetings, other than annual general meetings, may be convened by the directors at any time and must be so convened on receipt of a written request, setting out the agenda for the meeting, from holders of not less than one fifth of the issued share capital.

(ii) Except as otherwise required by law, notice of general meetings will be given to shareholders by the publication of two notices in the Recueil Spécial des Sociétés et Associations du Mémorial of Luxembourg ("the Mémorial") and in a Luxembourg newspaper, the first at least eight days before the second and the second at least eight days before the date of the meeting. In addition, notices will be sent to registered shareholders not less than eight days before the meeting. Advertisements of meetings will also be inserted in at least one leading London daily newspaper while any of the Company's shares are listed on The Stock Exchange.

(iii) Shareholders may appoint proxies to represent them at general meetings. Proxies need not be shareholders.

(iv) Holders of bearer shares wishing to attend and vote at general meetings, whether in person or by proxy, must deposit their certificates with such bank or banks as may be specified in the notice convening the meeting, not less than two clear business days before the date appointed for holding the meeting and must obtain a receipt confirming such deposit. Neither holders nor their proxies will be permitted to attend and vote unless they can produce such a receipt to the meeting.

(v) No business is to be transacted at any general meeting unless the quorum (if any) required in accordance with Luxembourg law is present when the meeting proceeds to business.

In the case of resolutions to change the Company's legal status, objects or any other provision of its Articles, shareholders representing at least one half of the issued share capital must be present in person or by proxy.

BASE LENDING RATES

A.B.N. Bank	13 %
Allied Irish Bank	13 %
American Express Bk.	13 %
Amro Bank	13 %
Henry Ansbacher	13 %
Arbuthnot Latham	13 %
Associates Cap. Corp.	13 %
Banco de Bilbao	13 %
BCCI	13 %
Bank Hapoalim BM	13 %
Bank Leumi (UK) plc	13 %
Bank of Cyprus	13 %
Bank Street Sec. Ltd.	14 %
Bank of N.S.W.	13 %
Banque Belge Ltd.	13 %
Banque du Rhone et de la Tamise S.A.	13½%
Barclays Bank	13 %
Beneficial Trust Ltd.	14 %
Bremar Holdings Ltd.	14 %
Brit. Bank of Mid. East	13 %
■ Brown Shipley	13 %
Canada Perm't Trust	13½%
Castle Court Trust Ltd.	13½%
Cavendish G'ty T'st Ltd.	14 %
Cayzer Ltd.	13 %
Cedar Holdings	13 %
■ Charterhouse Japhet	13 %
Choulartons	13½%
Citibank Savings	¶12½%
Clydesdale Bank	13 %
C. E. Coates	14 %
Comm Bk of Near East	13 %
Consolidated Credits	13 %
Co-operative Bank	*13 %
Corinthian Secs.	13 %
The Cyprus Popular Bk.	13 %
Duncan Lawrie	13 %
Eagil Trust	13 %
E.T. Trust	13 %
Exeter Trust Ltd.	14 %
First Nat. Fin. Corp.	15½%
First Nat. Secs. Ltd.	15½%
Robert Fraser	14 %
Grindlays Bank	‡13 %
■ Guinness Mahon	13 %
■ Hambros Bank	13 %
Heritage & Gen. Trust	13 %
■ Hill Samuel	§13 %
C. Hoare & Co.	†13 %
Hongkong & Shanghai	13 %
Kingsnorth Trust Ltd.	14 %
Knowsley & Co. Ltd.	13½%
Lloyds Bank	13 %
Mallinhall Limited	13 %
Edward Manson & Co.	14 %
Midland Bank	13 %
■ Samuel Montagu	13 %
■ Morgan Grenfell	13 %
National Westminster	13 %
Norwich General Trust	13 %
P. S. Refson & Co.	13 %
Roxburghe Guarantee	13½%
E. S. Schwab	13 %
Slavenburg's Bank	13 %
Standard Chartered	‖13 %
Trade Dev. Bank	13 %
Trustee Savings Bank	13 %
TCB Ltd.	13 %
United Bank of Kuwait	13 %
Whiteaway Laidlaw	13½%
Williams & Glyn's	13 %
Wintrust Secs. Ltd.	13 %
Yorkshire Bank	13 %

■ Members of the Accepting Houses Committee.

* 7-day deposits 10%, 1-month 10.25%. Short term £8,000/12 month 12.6%.

† 7-day deposits on sums of: under £10,000 10¼%, £10,000 up to £50,000 11%, £50,000 and over 11½%.

‡ Call deposits £1,000 and over 10%.

‖ 21 day deposits over £1,000 11¼%.

§ Demand deposits 10¼%.

¶ Mortgage base rate.

WEEK'S FINANCIAL DIARY

COMPANY MEETINGS— ... Comben, Dragonara Hotel, Redcliffe Way, Bristol, 12.30. Croda Intnl., Manley Ratcliffe Ltd., Tower Road, Berinsfield, Oxford, 12.00. Fogarty (E.), Havenside, Fishtoft Road, Boston, Lincolnshire, 2.15. Guardian Royal Exchange, Chartered Insurance Institute, 20, Aldermanbury, EC, 12.00. Jacks (William), Pennyhill Park, Bagshot, Surrey, 11.30. London Utd. Invs., Glaziers Hall, 9, Montague Close, London Bridge, SE, 12.00. Miller (Stanley), Brandling House, Gosforth ... Marshall (Thomas) (Loxley), Hotel St. George, Kenwood Road, Sheffield, 12.00. Minet Hldgs., Great Eastern Hotel, Liverpool Street, EC, 12.00. Newarthill, Imperial Hotel, Russell Square, WC, 12.30. Phicom, Centre Point, 103, New Oxford Street, WC, 12.00. Prudential Corp., 142, Holborn Bars, EC, 12.15. ... Photax (London), Brampton Road, Hampden Park, Eastbourne, 12.00. RMC, Carlton Tower Hotel, Cadogan Place, SW, 11.30. Relyon PBWS Beam Bridge Hotel, Sampford Arundel, Wellington, Somerset, 12.00. Savoy Hotel, Savoy Hotel, WC, 12.00. Steel Brothers, Sondes Place, Westcott Road, Dorking, Surrey, 12.00. ... Wade Potteries 0.5p

SUNDAY MAY 30

DIVIDEND & INTEREST PAYMENTS—

Blackwood Hodge 0.75p

Charterhouse 3p

English Electric Db. 3pc

Green's Economiser 2.875p

Harris Queensway 3p

Jersey General Inv. Tst. 5½p ...

Rockware 2.1p

APPOINTMENTS

New chief for Carrefour

Mr Glynn Moser has been appointed managing director of HYPERMARKET (HOLDINGS), the subsidiary company in the Linfood Group which operates Carrefour Hypermarkets. He succeeds Mr Peter Stubbs who, while remaining on the board of hypermarket (Holdings) will be undertaking special assignments.

★

Mr Andrew Carnegie has been promoted to the board of BEAM ADVERTISING AND MARKETING. He was group account director of Ogilvy and Mather.

★

Mr Angelo Salmasi has been appointed operations director for TIP CHASSIS RENTAL, European division of Transport International Pool. Mr Salmasi was director of operations—Europe for Hertz International.

★

Mr R. B. de Gray and Mr H. O. Bos have been appointed directors of REED PAPER & BOARD (UK). Mr de Gray is general manager of Aylesford Paper Mills, and Mr Bos is managing director of the paper division of Reed Corrugated Cases *Nederland B.V.*

★

Mr Nicholas M. Branch has joined the board of management consultants, BUTLER COX & PARTNERS, as a non-executive director. Mr Branch was managing director of Binder Hamlyn Fry & Co and a founder director of Larpent Newton & Co.

★

Mr Tom Rushton has been appointed commercial director of FARROW CONSTRUCTION (NORTHERN), Altrincham-based Lovell Construction Company. Mr Rushton was head of marketing for the north western division of Fairclough Building.

★

Ms Wendy Feldman, Ms Christine Large and Ms Carolyn Meunier have been appointed *executive directors of* SHANDWICK PUBLIC RELATIONS COMPANY, part of the Shandwick Communications Group.

★

Mr Frank Gard has been appointed actuary of MGM ASSURANCE from July 1 on the retirement of Mr John L. Robertson, deputy general manager and actuary. Mr Gard has been assistant actuary since 1971. Mr John Sutton has been appointed deputy actuary from July 1.

★

At the annual meeting of EQUITY AND LAW LIFE ASSURANCE SOCIETY Mr P. R. Smith retired from the board and Mr C. J. Brocksom, chief actuary, and Mr C. H. R. Wood, an assistant general manager, were elected directors.

★

At the annual meeting of the BRITISH DENTAL TRADE ASSOCIATION the following were elected officers: Mr C. J. Bray (SS White) president, Mr D. E. Gowers (Panadent) vice-president, Mr W. M. Lee (Oral Plastics) treasurer.

★

CSR LIMITED has given Mr I. G. Burgess responsibility for the general management of building materials division from May 24. The current joint general managers, Mr J. W. Laurie and Mr A. V. Shaw, will transfer to corporate duties as advisers to general management.

★

Mr Graham Clark has been appointed managing director of ATARI INTERNATIONAL (U.K.), Inc. He was previously managing director of Rank Xerox (U.K.). Atari is a wholly-owned subsidiary of Warner Communications, Inc. U.S.

★

Mr Andros Stakis has been appointed to the board of STAKIS. He is the elder son of Mr Reo Stakis, chairman of the Stakis *Organisation.*

WORLD STOCK MARKETS

Indices

NEW YORK —DOW JONES

	May 21	May 20	May 19	May 18	May 17	May 14	1982 High	1982 Low	Since Cmpil't'n High	Since Cmpil't'n Low
♦Industr'ls	835.80	832.48	835.80	840.85	845.32	857.78	882.52 (4/1)	795.47 (8/5)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me Bnds.	60.10	60.17	60.01	60.16	60.28	59.99	69.29 (17/5)	55.67 (12/2)	—	—
Transport.	333.56	332.32	334.88	339.48	345.45	350.84	388.46 (7/1)	314.38 (8/5)	447.38 (16/4/81)	12.32 (8/7/32)
Utilities	113.78	115.04	113.41	115.29	114.02	115.57	116.85 (7/5)	103.61 (15/1)	163.32 (20/4/69)	10.5 (28/4/42)
TradingVol 000-†	45,280	48,550	48,840	49,970	45,660	49,900	—	—	—	—

♦ Day's high 841.23 low 829.24

	May 14	May 7	April 30	Year ago (Approx)
Ind. div. yield %	6.52	6.42	6.58	5.81

STANDARD AND POORS

	May 21	May 20	May 19	May 18	May 17	May 14	1982 High	1982 Low	Since Cmpil't'n High	Since Cmpil't'n Low
Indust'ls	128.15	129.86	128.17	129.23	130.08	131.56	137.28 (4/1)	118.41 (8/5)	160.96 (28/11/80)	3.52 (30/6/32)
Composite	114.89	115.64	114.89	115.84	116.71	118.01	122.74 (4/1)	107.34 (8/5)	140.52 (28/11/80)	4.407 (1/6/32)

	May 19	May 12	May 5	Year ago (approx)
Ind. div. yield %	5.72	5.52	5.61	4.67
Ind. P/E Ratio	7.74	8.02	7.91	10.81
Long Gov. Bond yield	12.87	12.77	12.91	13.32

NY. S.E. ALL COMMON

May 21	May 20	May 19	May 18	1982 High	1982 Low
66.26	66.09	66.32	66.94	71.90 (4/1)	62.52 (12/5)

Rises and Falls

	May 21	May 20	May 19
Issues Traded	1,854	1,651	1,862
Rises	714	175	484
Falls	689	388	975
Unchanged	451	194	463
New Highs	12	12	12
New Lows	47	60	40

MONTREAL

	May 21	May 20	May 19	May 18	1982 High	1982 Low
Industrials	277.65	275.82	281.35	282.88	332.79 (4.1)	272.45 (18.5)
Combined	260.71	258.07	263.25	265.19	316.08 (4.1)	258.07 (21/5)
TORONTO Composite	1511.3	1502.80	1521.1	1531.6	1958.3 (4.1)	1502.80 (20/5)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Cities Service	1,558,900	37	− ⅛
Kaiser Alum.	971,400	12⅝	—
AT T	878,400	54⅞	+ ⅛
IBM	824,500	62⅝	− ⅛
NLT	668,400	28¾	+ 1½
Ral Purina	608,300	14	+ ⅛
Xerox	573,000	32¾	− ⅛
N.L. Industries	546,700	24½	− ⅛
Exxon	520,200	28⅝	+ ⅛
Citicorp	415,100	26⅝	+ ⅛

	May 21	May 20	May 19	May 18	1982 High	1982 Low
AUSTRALIA All Ord. (1/1/80)	508.6	510.2	514.6	516.5	595.5 (4/1)	455.8 (18/5)
Metal & Minls. (1/1/80)	369.9	372.8	376.2	378.7	425.1 (5/1)	322.2 (2/4)
AUSTRIA Credit Aktien (2/1/62)	52.9	(c)	52.29	52.24	56.96 (4/1)	52.0 (21/5)
BELGIUM Belgian SE (31/12/63)	(c)	(c)	95.37	95.56	102.45 (5/4)	86.42 (28/1)
DENMARK Copenhagen SE (1/1/73)	117.15	(c)	117.44	117.85	128.22 (25/2)	112.90 (3/3)
FRANCE CAC General (31/12/81)	109.9	(c)	109.3	109.4	111.6 (12/5)	96.3 (4/1)
Ind Tendance (31/12/81)	122.4	(c)	122.5	122.0	124.8 (12/5)	97.7 (4/1)
GERMANY FAZ-Aktien (31/12/58)	228.42	(c)	228.22	229.70	239.45 (5/4)	218.35 (18/1)
Commerzbank(Dec1953)	697.4	(c)	696.5	700.8	728.8 (5/4)	666.7 (18/1)
HOLLAND ANP-CBS General (1970)	93.8	(c)	93.6	94.1	95.0 (16/5)	84.9 (6/1)
ANP-CBS Indust (1970)	73.5	(c)	73.6	74.4	74.8 (10/5)	63.2 (4/1)
HONG KONG Hang Seng Bank (31/7/64)	1358.51	1358.37	1369.30	1354.06	1445.32 (12/1)	1128.88 (9/3)
ITALY Banca Comm Ital.(1972)	178.77	183.34	188.28	185.58	212.66 (19/5)	178.77 (21/5)
JAPAN** Dow Average (16/5/49)	7497.86	7581.54	7572.15	7587.06	7928.55 (27/1)	6889.55 (17/3)
Tokyo New SE (4/1/68)	557.26	558.86	562.07	560.38	593.29 (27/1)	520.70 (17/3)
NORWAY Oslo SE (1/1/72)	125.78	(c)	124.58	124.23	150.39 (28/1)	109.12 (1/4)
SINGAPORE Straits Times (1966)	786.85	772.51	778.24	778.69	810.76 (6/1)	697.48 (9/3)
SOUTH AFRICA Gold (1958)	570.4	(u)	418.7	416.8	569.3 (5/1)	418.6 (11/5)
Industrial (1958)	424.5	(u)	575.6	578.9	711.7 (8/1)	563.3 (29/5)
SPAIN Madrid SE (30/12/81)	99.26	99.71	99.28	99.61	107.45 (9/2)	99.17 (6/1)
SWEDEN Jacobson & P. (1/1/58)	585.95	(c)	(u)	597.76	856.52 (22/1)	565.32 (28/4)
SWITZERLAND Swiss BankCpn.(31/12/58)	256.1	(c)	257.4	256.9	265.1 (11/1)	242.3 (11/3)
WORLD Capital Intl. (1/1/70)	—	135.6	135.2	135.3	147.2 (4/1)	129.1 (17/3)

(**) Saturday May 15: Japan Dow (c) TSE (c)

Base values of all indices are 100 except Australia All Ordinary and Metals—500, NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrials. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed u Unavailabel.

Financial Rand U.S.$0.81¾ (Discount of 12¼)

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

TEL AVIV

Company	Prices May 23 1982	Change on the fortnight
Bank Leumile Israel	1,251	−1,196
I.D.B. Bankholding	2,070	+ 25
Bank Hapoalim Br.	1,693	+ 32
Union Bank of Israel Br.	1,348	+ 14
United Mizrahi Bank	860	+ 20
Hassneh Ins. Br.	1,860	+ 52
Leumi Mort. Bk. Br.	805	− 324
"Tefahot" Isrl. Mt. Bk.	2,100	− 10
Danot S/O	—	—
Land Development		
Africa Israel Inv. IE10	5,000	+ 205
Israel Land Devpt. Br.	1,615	+ 290
Property and Building	1,720	+ 325
Public Utility		
Super Sol "A"	2,020	+ 200
Investment Companies		
Bank Leumi Invest.	1,105	+ 85
"Clal" Israel Invest.	1,070	− 156
Discount Invest.	1,245	+ 150
Commercial and Industrial		
Sead Sea	2,300	+ 510
Polgat "B"	3,400	+ 460
Argaman Textile B	1,648	+ 96
"Ata" Textile "B"	880	+ 31
Amer. Israeli Ppr. Mills	1,500	+ 102
Elite	2,800	+ 430
Teva Reg.	1,950	+ 151
Fuel and Oil		
Delek	1,845	+ 498

Source: Bank Leumi le Israel BM, Tel Aviv. †Bid.

CURRENCIES, MONEY and GOLD

MONEY MARKETS

BY COLIN MILLHAM

Looking at the foundations

The mood of optimism in financial markets as a result of some encouraging economic news earlier this month, all but evaporated last week. The present Government's standing in the country may have never been higher, but fears have grown that this towering edifice does not have very solid foundations.

A mood of national unity has followed the rebuffs delivered to Britain by the Argentine junta and the EEC with regard to sanctions against Argentina and European farm prices, but it is now up to the Government to prove that it can emerge from this twin crisis of confidence with renewed strength. There is nothing the money market fears more at the moment that the demise of Mrs Thatcher, and the possible replacement of the Government by one dedicated to completely contrary policies.

Against this nervous background interest rates moved higher until the middle of the week and then tended to stabilise as the Bank of England stepped in to give generous, and early support to the market. Three-month interbank money rose to 13 7/16 per cent from 13 9/32 per cent at the end of the previous week, and discount houses buying rates for eligible bills also increased. Three-month bank bills rose to 12⅞ per cent from 12⅝ per cent. The total shortage of credit last week was in the region of £1.5bn, compared with £1.75bn the previous week, and there was no change in the Bank of England's market dealing rates.

United States interest rates were slightly more encouraging, and Eurodollar rates were easier overall. Three-month money eased to 14 7/16 per cent from 14⅝ per cent.

The Federal funds overnight rate was around 14⅝-14¾ per cent in the early part of the week, but fell to 13½-13¾ per cent on Friday morning. The Federal Reserve Bank was also forced to relieve market fears with fairly generous intervention, following the collapse of Drysdale Government Securities.

In Europe interest rates tended to ease following moves to add liquidity to domestic money markets by central banks in Germany and France.

WEEKLY CHANGE IN WORLD INTEREST RATES

	May 21	change		May 21	change
LONDON			**NEW YORK**		
Base rates	13	Unch'd	Prime rates	16½	Unch'd
7 day interbank	13-13⅛	−1/16	Federal funds	13½-13¾	−1
3 mth interbank	13½-13⅝	+3/32	3 mth Treasury Bills	11.46	−0.88
Treasury Bill Tender	12.7458%	+0.2435	6 Mth. Treasury Bills	11.60	−0.74
Band 1 Bills	13⅛	Unch'd	3 Mth. CD	13.55	+0.10
Band 2 Bills	13	Unch'd	**FRANKFURT**		
Band 3 Bills	12⅞*	Unch'd	Lombard	9.0	Unch'd
3 Mth. Treasury Bills	12 25/32	+3/32	One Mth. Interbank	8.975	+0.25
1 Mth. Bank Bills	13 1/16-13 3/32	+3/32	Three month	9.10	−0.025
3 Mth. Bank Bills	12 13/16-12⅞	+1/32	**PARIS**		
TOKYO			Intervention Rate	16	Unch'd
One month Bills	7.21875	Unch'd	1 Mth. Interbank	16 1/16	−1/16
Three month Bills	7.15625	Unch'd	Three month	15 7/16	+1/32
BRUSSELS			**MILAN**		
One month	14⅞	+⅛	One month	20 1/16	Unch'd
Three month	14⅞	−⅛	Three month	20 1/16	Unch'd
AMSTERDAM			**DUBLIN**		
One month	8 11/16	−1/16	One month	19⅞	+1/16
Three month	8 9/16	−1/16	Three month	19⅞	+1/16

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market, and their respective changes during the week. *Band 4 12¾.

BANK OF ENGLAND TREASURY BILL TENDER

	May 21	May 14		May 21	May 14
Bills on offer	£100m	£100m	Top accepted rate of discount	12.7549%	12.5143%
Total of applications	£328.56m	£405.76m	Average rate of discount	12.7458%	12.5023%
Total allocated	£100m	£100m	Average yield	13.16%	12.90%
Minimum accepted bid	£96.82	£96.88	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	99%	66%			

FT LONDON INTERBANK FIXING

3 months U.S. dollars	
bid 14 5/8	offer 14 1/2
6 months U.S. dollars	
bid 14 5/8	offer 14 1/2

The fixing rates (May 21) are the arithmetical means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

May 21 1982	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	—	12¾-18	12⅞-13	—	—	13-13¼	12¾-13	—	—	—
2 days notice	—	—	13¼	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	13 13⅛	13⅛*	—	—	13¼-13½	12¾-13	—	—	—
One month	13 1/16-13 3/16	13 1/16-13 3/16	13⅛	14-13⅝	13⅛	13⅝	12⅞-13	13 1/32-13 1/16	13 1/16-13 3/32	13¾
Two months	13 5/16-13⅛	13 5/16-13 9/16	—	13⅞-13½	13½	—	12⅞	12 29/32-12 13/16	12 15/16-13	13⅝
Three months	13 5/16-13 7/16	13½-13⅝	13½	13⅞-13½	13⅝	—	12¾	12 25/32	12 13/16-12⅞	13½
Six months	13 5/16-13 7/16	13½-13⅝	13½	13-12½	13⅝	—	—	—	12 11/16	13
Nine months	13⅝-13 7/16	13½-13⅝	—	13¾-13⅜	13⅝	—	—	—	—	—
One year	13 9/16-13 7/16	13½-13⅝	13⅝	13¾-13⅜	13⅝	—	—	—	—	—
Two years	—	—	13⅝	—	—	—	—	—	—	—

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates, nominally three years 14 per cent; four years 14⅛ per cent; five years 14⅜ per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 12 25/32-13 per cent; four months trade bills 13¾ per cent.

Approximate selling rates for one month Treasury bills 13 per cent: two months 12 27/32-12⅞ per cent: three months 12 25/32 per cent. Approximate selling rate for one month bank bills 13 per cent: two months 12⅞ per cent and three months 12¾ per cent; one month trade bills 13½ per cent; two months 13⅝ per cent; three months 13¾ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 14 per cent from May 1 1982. London and Scottish Clearing Bank Rates for lending 13 per cent. London Clearing Bank Deposit Rates for sums at seven days' notice 10-10¼ per cent. Treasury Bills: Average tender rates of discount 12.7458 per cent.

Certificates of Tax Deposit (Series 5) 13¾ per cent from May 14. Deposits withdrawn for cash 11 per cent.

EURO-CURRENCY INTEREST RATES (Market closing Rates)

May 21	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Krone
Short term	13-13¼	13⅞-14⅛	13-14	8¾-9	1½-2	8⅜-8½	40-50	18½-20½	12½-14½	14-14½	6¾-6⅞	20-20⅜
7 days' notice	13-13¼	14¼-15½	13-14	8⅝-8⅞	5½-5½	8⅜-8½	40-50	20⅜-22½	14-16	14¼-14½	6 11/16-7 1/16	20½-21⅞
Month	13⅜-13½	14 5/16-14 7/16	15⅝-16	8 11/16-8 13/16	3 7/16-3 5/16	8⅝-8¾	29-31	23-24	15⅝-16½	14¾-15	6 11/16-7 1/16	20-20⅜
Three months	13 7/16-13 9/16	14 5/16-14 7/16	15½-15⅞	8¼ 8 7/16	3¾-3⅞	8⅝ 8 11/16	26-27	23¼-24	15½-16½	14¾-15	7 1/16-7 3/16	20 20⅜
Six months	13¼-13 9/16	14 5/16-14 7/16	15⅜-15¾	8¾-8⅞	4⅜-4¾	8⅝-8 11/16	23-24	23¾-24⅛	15½-16½	14½-14⅝	7⅛-7¼	19-19⅜
One Year	13 7/16-13 9/16	14⅛-14⅜	15⅜-15¾	8¾-8⅞	4 7/16-4 11/16	8 7/16-8 9/16	20¼-21¼	23½-24¼	15-16	14⅜-14⅝	7 1/16-7 3/16	17¾-18⅛

SDR linked deposits: one month 13 13/16-14 3/16 per cent; three months 13 7/16-13 13/16 per cent; six months 13 3/16-13 9/16 per cent; one year 12 13/16-13 3/16 per cent.

ECU linked deposits: one month 15¼-15¾ per cent; three months 14 11/16-15 3/16 per cent; six months 14⅛-14½ per cent; one year 13 7/16-13 13/16 per cent.

Asian $ (closing rates in Singapore): one month 14 7/16-14 11/16 per cent; three months 14⅜-14½ per cent; six months 14⅜-14½ per cent; one year 14 5/16-14 7/16 per cent. Long-term Eurodollar two years 14½-14¾ per cent; three years 14⅝-14⅞ per cent; four years 14¾-15 per cent; five years 14⅞-15⅛ per cent; nominal closing rates. Short-term rates are call for U.S. dollars, Canadian dollars and Japanese yen; others two days' notice.

The following rates were quoted for London dollar certificates of deposit: one month 13.95-14.05 per cent; three months 13.75-13.85 per cent; six months 13.75-13.85 per cent; one year 13.80-13.90 per cent.

CURRENCIES AND GOLD

Sterling weak

Sterling weakened sharply as hopes of a diplomatic settlement to the Falkland Islands dispute faded. On Bank of England figures its trade-weighted index fell to a seven-month low of 88.6 on Thursday, and finished the week at 89.0, compared with 90.4 on the previous Friday. The pound also touched the lowest level since last October against the D-mark, closing at DM 4.13 on Thursday, and finishing the week at DM 4.14 against DM 4.21. Sterling weakened to FFr 10.7850 from FFr 11.00 against the French franc; to SwFr 3.5250 from SwFr 3.55 in terms of the Swiss franc; and to Y427 from Y429 against the Japanese yen.

Trading was particularly thin on Thursday, with most European centres closed for Ascension Day.

The dollar showed mixed changes. Its trade-weighted index rose to 112.9 from 112.8. The U.S. currency was unchanged at DM 2.3060, and rose to SwFr 1.9625 from SwFr 1.9440; to Y237.60 from Y235; but fell to FFr 6.0075 from FFr 6.03. Doubts continued about U.S. monetary policy, following encouraging money supply figures the previous week. Intervention to add reserves to the banking system was taken as an indication of easier monetary trends in the U.S., but many equally have been an attempt to calm market nerves following the collapse of Drysdale Government Securities, a U.S. securities firm.

The D-mark remained the strongest member of the European Monetary System, with the Dutch guilder and Danish krone close together as the second and third strongest currencies. German interest rates continued to ease, but there appeared to be no other moves by the Bundesbank to push the D-mark back within its official divergence limit. The lira was again the weakest member of the system, but the Belgian franc improved, and seemed to be under less speculative pressure.

Gold had a fairly quiet week, rising $2¾ to $338. It touched a peak of $344¼ on Friday, and was very nervous after news of increased military activity on the Falkland Islands.

THE DOLLAR SPOT AND FORWARD

May 21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7850-1.8100	1.7950-1.7970	0.15-0.25c dis	−1.34	0.40-0.50dis	−1.00
Ireland†	1.4990-1.5060	1.4995-1.5015	0.70-0.60c pm	5.18	1.90-1.75 pm	4.83
Canada	1.2290-1.2340	1.2335-1.2340	0.08-0.13c pm	1.07	0.30-0.35 pm	3.12
Nethlnd	2.5550-2.5590	2.5550-2.5580	1.31-1.21c pm	5.91	3.63-3.53 pm	5.60
Belgium	43.42-43.47	43.43-43.45	5-10c dis	−2.07	17-22 dis	−1.79
Denmark	7.8145-7.8375	7.8150-7.8200	3⅛-3⅞ore dis	−4.79	7⅜-8¼ dis	−4.08
W. Ger	2.2960-2.3080	2.3055-2.3065	1.19-1.14pf pm	6.05	3.30-3.25 pm	5.69
Portugal	70.25-70.75	70.50-70.70	50-200c dis	−21.27	150-525dis	−19.14
Spain	102.50-102.85	102.55-102.65	17-22c dis	−2.21	80-90 dis	−3.30
Italy	1,276-1,278	1,276-1,277	9-10 lire dis	−8.92	28-30 dis	−9.08
Norway	5.9525-5.9590	5.9525-5.9575	1.40-1.80ore dis	−3.22	2.80-3.20dis	−6.04
France	5.9850-6.0100	6.0050-6.0100	7-8½c dis	−15.52	17-18½ dis	−11.85
Sweden	5.7730-5.7960	5.7910-5.7960	1.00-1.85ore pm	2.94	2.50-2.35dis	−1.67
Japan	236.50-237.90	237.55-237.65	1.60-1.50y pm	7.86	4.30-4.20 pm	7.18
Austria	16.18¼-16.22	16.19½-16.20½	10-8¾gro pm	6.94	24½-21½ pm	5.73
Switz	1.9530-1.9650	1.9620-1.9630	1.97-1.87c pm	11.81	5.27-5.17 pm	10.70

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

THE POUND SPOT AND FORWARD

May 21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.7850-1.8100	1.7950-1.7970	0.15-0.25c dis	−1.34	0.40-0.50dis	−1.00
Canada	2.1950-2.2200	2.2170-2.2190	0.40-0.50c dis	−2.43	1.05-1.20dis	−2.03
Nethlnd	4.57-4.62	4.60-4.61	2-1½c pm	4.54	5½-5 pm	4.54
Belgium	77.60-78.20	77.85-78.15	17-27c dis	−3.38	50-60 dis	−2.82
Denmark	13.95-14.09	14.04-14.06	6⅞-7⅞ore dis	−6.30	17⅛-18⅞dis	−5.11
Ireland	1.1905-1.2005	1.1970-1.1985	0.59-0.73p dis	−6.11	1.67-1.87dis	−5.91
W. Ger	4.10-4.15	4.13½-4.14½	1⅞-1⅜pf pm	4.71	5⅜-4⅞ pm	4.71
Portugal	125.50-127.00	126.25-126.75	105-385c dis	−23.23	305-985dis	−20.38
Spain	184.00-185.00	184.30-184.60	45-70c dis	−3.74	180-400dis	−6.29
Italy	2,281-2,301	2,295½-2,298½	18-21 lire dis	−10.18	56-61 dis	−10.18
Norway	10.64-10.72	10.68-10.70	3⅛-5⅛ore dis	−4.77	7½-8⅞ dis	−3.06
France	10.72-10.80	10.78-10.79	13¼-15¼c dis	−16.97	33-36 dis	−12.79
Sweden	10.33-10.43	10.39½-10.40½	7⅛-⅞ore pm	0.50	2¼-1½ pm	0.72
Japan	423-429	426½-427½	2.35-2.05y pm	6.18	6.60-6.30 pm	6.04
Austria	28.90-29.15	29.10-29.15	16-12gro pm	5.77	39-31 pm	4.81
Switz	3.49-3.54	3.52-3.53	3¼-2⅞c pm	10.21	8¼-8⅛ pm	9.64

Belgian rate is for convertible francs. Financial franc 85.45-85.55. Six-month forward dollar 0.85-0.95c dis, 12-month 1.40-1.60c dis.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.7960	1.7980	1.8005	1.8050	1.8110
D-Mark	4.1400	4.1238	4.0913	4.0465	3.9576
French Franc	10.7850	10.9375	11.1300	11.3004	11.4650
Swiss Franc	3.5250	3.4950	3.4400	3.3744	3.2503
Japanese Yen	427.0	424.8	420.5	414.6	403.2

GOLD MARKETS

	May 21		May 20	
Gold Bullion (fine ounce)				
Close	$337½-338½	(£187¾-188¼)	$341¾-342¾	(£192-192½)
Opening	$343¾-344½	(£192½-193)	$340½-341¼	(£190¾-191¼)
Morning fixing	$343.25	(£191.226)	$341.50	(£190.974)
Afternoon fixing	$338.50	(£188.370)	$342.50	(£192.308)
Gold Coins				
Krugerrand	$348¼-349	(£193-194)	$352½-353¼	(£198-198½)
1/2 Krugerrand	$179½-180½	(£99¾-101½)	$181¾-182¾	(£102-102¾)
1/4 Krugerrand	$91¼-92¼	(£50¾-51¼)	$92½-93¼	(£52-52½)
1/10 Krugerrand	$37¼-38¼	(£20¾-21¼)	$37¾-38¾	(£21¼-21¾)
Mapleleaf	$347-348	(£193-193½)	$352-353	(£197¾-198¼)
New Sovereigns	$81½-82¼	(£45½-45¾)	$82½-83	(£46¼-46¾)
King Sovereigns	$95-96	(£53-53½)	$96-97	(£54-54½)
Victoria Sovs	$95-96	(£53-53½)	$96-97	(£54-54½)
French 20s	$70-80	(£39-44½)	$68¾-78¾	(£38½-44¼)
50 pesos Mexico	$413½-416	(£230-231¼)	$419¾-422¼	(£235¾-237¼)
100 Cor. Austria	$328¼-330¾	(£182½-184)	$332¼-335¼	(£186½-188¼)
$20 Eagles	$432-438	(£240¼-243½)	$432-438	(£242¾-246)

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU May 19	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.6963	45.0216	+0.73	+1.05	±1.5440
Danish Krone	8.18382	8.09319	−1.11	−0.79	±1.6428
German D-Mark	2.41815	2.38250	−1.47	−1.15	±1.1097
French Franc	6.19564	6.21283	+0.28	+0.60	±1.3743
Dutch Guilder	2.67296	2.64957	−0.88	−0.56	±1.5069
Irish Punt	0.686799	0.687866	+0.16	+0.48	±1.6889
Italian Lira	1305.13	1322.21	+1.31	+1.31	±4.1242

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

OTHER CURRENCIES

May 21	£	$		£ Note Rates
Argentina Peso	25,620-25,660†	14,200-14,250†	Austria	28.95-29.25
Australia Dollar	1.6960-1.6990	0.9445-0.9450	Belgium	85.40-86.40
Brazil Cruzeiro	289.12-290.12	160.28-161.08	Denmark	14.02-14.14
Finland Markka	8.082-8.1009	4.5000-4.5020	France	10.73-10.83
Greek Drachma	116.142-115.538	63.10-63.30	Germany	4.11¾-4.15¾
Hong Kong Dollar	10.21½-10.24	5.7030-5.7080	Italy	2240-2300
Iran Rial	146.30*	81.35*	Japan	422-427
Kuwait Dinar (KD)	0.5122-0.5132	0.2856-0.2858	Netherlands	4.58½-4.60½
Luxembourg Fr	77.95-78.15	43.43-43.45	Norway	10.73-10.85
Malaysia Dollar	4.0670-4.0795	2.2710-2.2740	Portugal	123½-128
New Zealand Dlr.	2.3355-2.3405	1.3005-1.3025	Spain	177½-187
Saudi Arab. Riyal	6.15-6.16	3.4295-3.4305	Sweden	10.38-10.48
Singapore Dollar	3.7090-3.7210	2.0710-2.0740	Switzerland	3.50¼-3.54¼
Sth. African Rand	1.9215-1.9235	1.0700-1.0710	United States	1.78¼-1.80¼
U.A.E. Dirham	6.5845-6.5945	3.6715-3.6730	Yugoslavia	78-85

† Now one rate. * Selling rate.

CURRENCY MOVEMENTS

May 21	Bank of England Index	Morgan Guaranty Changes %
Sterling	89.0	−33.9
U.S. dollar	112.9	+6.2
Canadian dollar	86.8	−18.9
Austrian schilling	118.9	+26.4
Belgian franc	96.1	−1.0
Danish kroner	85.1	−12.3
Deutsche mark	125.5	+48.6
Swiss franc	146.8	+96.0
Guilder	115.6	+22.0
French franc	80.2	−14.2
Lira	54.4	−58.2
Yen	137.3	+31.9

Based on trade weighted changes from Washington agreement December, 1971. Bank of England index (base average 1975=100).

CURRENCY RATES

May 21	Bank rate %	Special Drawing Rights	European Currency Units
Sterling	—	0.631166	0.575579
U.S. $	12	1.13452	1.03488
Canadian $	15.32	—*	1.27202
Austria Sch.	6½	18.3917	16.7756
Belgian F.	14	N/A	44.8729
Danish Kr.	11	8.88896	8.10520
D mark	7½	2.61167	2.37973
Guilder	8	2.90267	2.64622
French Fr.	9½	6.80882	6.20779
Lira	19	1449.35	1321.56
Yen	5½	268.201	245.269
Norwgn. Kr.	9	6.76741	6.16795
Spanish Pts.	8	116.833	106.356
Swedish Kr.	10	6.57171	5.99326
Swiss Fr.	5½	2.22162	2.02601
Greek Dr'ch.	20½	71.5088	65.2292

*CS/SDR rate for May 20, 1.39252

EXCHANGE CROSS RATES

May 21	Pound St'rling	U.S. Dollar	Deutschem'k	Japan'se Yen	French Franc	Swiss Franc	Dutch Guild'	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1	1.796	4.140	427.0	10.785	3.525	4.605	2298.	2.218	78.05
U.S. Dollar	0.557	1.	2.305	237.8	6.005	1.963	2.564	1279.	1.235	43.46
Deutschemark	0.242	0.434	1.	103.1	2.605	0.851	1.112	555.0	0.536	18.85
Japanese Yen 1,000	2.342	4.206	9.695	1000.	25.26	8.255	10.78	5381.	5.194	182.8
French Franc 10	0.927	1.665	3.839	395.9	10.	3.268	4.278	2130.	2.057	72.37
Swiss Franc	0.284	0.510	1.174	121.1	3.060	1.	1.306	651.9	0.629	22.14
Dutch Guilder	0.217	0.390	0.899	92.73	2.342	0.765	1.	498.9	0.482	16.95
Italian Lira 1,000	0.435	0.782	1.802	185.9	4.694	1.534	2.004	1000.	0.965	33.97
Canadian Dollar	0.451	0.810	1.867	192.5	4.862	1.589	2.076	1036.	1.	35.19
Belgian Franc 100	1.281	2.301	5.304	547.1	13.82	4.516	5.900	2944.	2.842	100.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED TRUSTS

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INSURANCE & OVERSEAS MANAGED FUNDS

INSURANCES

Abbey Life Assurance Co. Ltd.
1-3 St. Paul's Churchyard, EC4. 01-248 9111

Property Fund	226.6	238.6	.....	—
Equity Fund	51.1	53.8	-0.2	—
Property Acc.	265.5	279.5	.....	—
Equity Acc.	48.9	51.5	-0.2	—
Selective Fund	147.3	155.1	-0.3	—
Money Fund	165.7	174.5	.....	—
Convertible Fund	177.8	187.2	.....	—
Prop. Fd. Ser. 4	209.3	220.4	.....	—
Equity Ser. 4	54.7	57.6	-0.2	—
Man. Ser. 4	197.4	207.8	-0.3	—
Money Ser. 4	150.3	158.3	.....	—
Conv. Ser. 4	150.5	158.5	.....	—
Fixed Int. Fd. Ser. 4	115.3	121.4	.....	—
American Ser. 4	112.0	117.9	+0.4	—
High Inc. Ser. 4	115.6	121.7	.....	—
Indexed Inv. Series 4	96.5	101.6	.....	—
Pension Property	315.9	332.6	.....	—
Pension Equity	281.9	296.8	-1.3	—
Pension Selective	148.5	156.2	-0.4	—
Pension Managed	291.1	306.5	-0.6	—
Pension Security	220.1	231.7	.....	—
Pension Fixed Int.	111.3	117.2	.....	—
Pension Indexed Inv.	96.6	101.7	.....	—

Albany Life Assurance Co. Ltd.
31, Old Burlington St., W.1. 01-437 5962

Equity Fd. Acc.	317.4	334.0	-1.7	—
Fixed Int. Acc.	193.6	203.8	+0.5	—
Gtd. Money Fd. Ac.	159.3	163.5	+0.1	—
Intl. Man. Fd. Acm.	147.7	155.4	-0.2	—
Intl. Fxd. Int. Fd.	109.6	115.3	+1.3	—
Prop. Fd. Acc.	158.8	161.1	+0.2	—
M'ple Inv. Acc.	250.0	263.1	-0.7	—
Equity Pen.Fd.Acc.	435.1	458.0	-2.8	—
Fixed I.Pen.Acc.	309.5	325.7	+0.1	—
G'td.Mon.Pen.Acc.	214.2	225.5	.....	—
Intl.Mn.PnFdAcc.	171.1	180.0	-0.4	—
Prop.Pen.Acc.	209.0	220.0	+0.3	—
M'ple Inv.Pen.Acc.	361.8	380.8	-0.2	—

AMEV Life Assurance Ltd.
2-4, Prince of Wales Rd., B'mouth. 0202 762122

Managed Fd.	197.6	208.2	.....	—

Crown Life—Continued

St. George Mangd. Fd.	109.4	115.1	.....	—
Lincs & Gen.Fd.	119.8	126.1	.....	—
Sage Fd.	89.0	93.6	.....	—
Heritage Fd.	98.6	103.7	.....	—
DBS Managed	104.4	109.8	.....	—
Crown. Brit. Inc. A	217.2		.....	—
Pens. Mixed. Fd.	147.5	152.8	.....	—
Pens. Mang'd. Acc.	110.0	115.7	.....	—
Pens. Mang'd. Init.	106.5	112.1	.....	—
Pens. Equity Acc.	102.4	107.7	.....	—
Pens. Equity Ind.	99.1	104.3	.....	—
Pens. Fxd. Int. Acc.	106.1	111.6	.....	—
Pens. Fxd. Int. Init.	102.7	108.1	.....	—
Pens. Money Acc.	107.4	113.0	.....	—
Pens. Money Init.	104.1	109.5	.....	—

Crusader Insurance PLC
Tower Hse, 38 Trinity Sq, EC3N4DJ 488 2323

Growth Prop May 4	100.1	110.1	.....	—
Managed Pens May 12	116.81	122.96	.....	—

Eagle Star Insur./Midland Assur.
1, Threadneedle St., EC2. 01-588 1212

Eagle/Mid. Units	75.6	78.4	.....	6.24

Equity & Law Life Ass. Soc. Ltd.
Amersham Road, High Wycombe. 0494 33377

UK Equities Fund	183.5	193.1	-0.4	—
Higher Inc. Fund	117.8	124.0	+0.5	—
Property Fund	190.8	200.8	.....	—
Fixed Interest Fund	138.2	145.5	+0.2	—
Index Linked Secs Fnd.	93.4	98.3	+0.1	—
Gtd. Deposit Fund	134.6	141.6	.....	—
Nth. America Fund	106.3	111.8	-1.4	—
Far East Fund	90.6	95.3	-0.2	—
International Fund	101.1	106.4	-0.6	—
Mixed Fund	165.1	173.7	-0.2	—

Equity & Law (Managed Funds) Ltd.
Amersham Road, High Wycombe. 0494 33377

Ind. Pen. Equity	190.4	200.4	.....	—
Ind. Pen. Property	142.9	150.4	.....	—
Ind. Pen. Fixed Int.	136.0	143.1	.....	—
Ind. Pen. Indx Lk. Scs.	101.4	106.7	.....	—
Ind. Pen. Overseas	152.9	160.9	.....	—
Ind. Pen. Cash	134.2	141.2	.....	—
Ind. Pen. Balanced	152.9	160.9	.....	—

OFFSHORE AND OVERSEAS

Chinese Fund	75.5	78.7	-0.2	9.30
Precious Metal Fund.	195.0	202.5	.....	—
Vanguard Cmdy. Fd.	45.2	46.3	.....	—
Financial Futures Fd.	101.2	105.4	-1.7	—
Wren Intl. Fnd.*	$0.935	0.973	+0.008	—

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. Z Previous day's price. ¶ Guernsey gross. ø Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies.

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked & Variable Rate

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

LOANS

Public Board and Ind.

LOANS—Continued

Financial

Building Societies

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS AND HIRE PURCHASE

BANKS & H.P.—Cont.

Hire Purchase, etc.

BEERS, WINES AND SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ENGINEERING MACHINE TOOLS

ENGINEERING—Continued

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

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INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Nov.	June	Jardine M. $HK5	164	25.4	†Q92c	♦	5.4	♦
July	Jan.	Jenks & Cattell.	35	23.11	1.0	—	4.1	—
Oct.	Apr.	Johnson Clnrs.	231	29.3	7.7	2.3	4.8	12.8
Feb.	Aug.	Johnson Mthy. £1	258	7.12	9.5	2.3	5.3	(9.5)
Oct.	June	Jourdan (T.) 10p	69	15.3	5.25	0.6	10.9	(X1.0)
May	Dec.	Kalamazoo 10p	43	19.4	2.5	0.9	8.3	19.9
Feb.	July	Kelsey Inds.	160	23.12	8.0	2.1	7.1	9.2
Oct.	April	Kennedy Sm. 10p	140	15.3	†4.38	4.1	4.5	7.4
Nov.	April	Kershaw (A.) 5p	229	1.3	21.75	0.5	14.1	(36.1)
Jan.	Aug.	Kleen-E-Ze Hldgs.	43	23.12	5.5	0.7	18.3	(12.8)
Jan.	Aug.	L.C.P. Hlds.	56	23.11	4.3	0.8	11.0	(17.1)
Oct.	April	L.R.C. Int. 10p	51	15.2	2.5	1.6	7.0	11.6
Dec.	May	Lawtex	36	23.11	‡1.5	—	‡	—
July	Nov.	Lead Inds. 50p	156	30.4	9.66	1.8	8.8	(8.5)
Mar.	Oct.	Lep Group 10p	360	23.12	16.5	2.1	6.5	8.4
Jan.	July	Lesney Prods. 5p	12	11.79	—	—	—	—
Oct.	July	Lilleshall 10p	28	30.4	2.5	—	12.8	—
July	Oct.	Lon. & Liv. 10p	46	7.12	†1.7	3.3	5.3	6.8
Jan.	Sept.	Londn & Midl'd.	92	7.12	7.75	1.1	12.0	(8.9)
Jul.	Dec.	Lon. & Nthn. Grp.	48	9.11	3.75	♦	11.8	♦
—		♦Lon. Priv. Health	32	—	—	—	—	♦
Jan.	June	Long Hmbly. 10p	3½	12.79	B—	—	—	—
Apr.	Oct.	Longton Inds.	38	14.9	1.0	—	3.6	—
Aug.	Apr.	Lonsdale Universl.	67	15.2	♦1.0	0.9	2.1	(11.8)
Dec.	June	Low & Bonar 50p	95	19.4	7.0	1.6	10.5	(7.3)
June	Dec.	M.Y. Dart. 10p	22½	23.11	1.33	—	8.5	—
May	Sept.	McC'rthy Ph. 20p	165	1.3	7.0	2.8	6.1	7.7
Oct.	May	Macfarlane Gp.	102	19.4	4.0	2.2	5.6	10.5
July	Nov.	Maclellan 20p	36xd	17.5	1.43	1.4	5.7	(15.8)
Aug.	Mar.	Macpherson (D.)	81	15.2	4.2	1.5	7.4	11.8
Oct.	Apr.	Magnolia Group	59	14.9	2.3	5.9	5.7	5.8
Apr.	Oct.	Man. Ship Can. £1	90	9.80	—	—	—	—
Aug.	Mar.	Marley	42	15.2	2.25	1.5	7.7	(11.2)
Feb.	Oct.	Marling Ind. 10p	36½	23.12	†0.94	3.8	3.7	(8.2)
Dec.	Jan.	Marshall L'xy. 'A'	41	30.4	2.8	3.4	9.8	3.6
Jan.	July	Marshall's Univ	78	1.6	0.1	—	0.2	—
Dec.	May	Martin-Black	33	5.79	—	—	—	—
—		Mathesons 7¾pc	£110	30.6	Q7¾%	2.3	†7.2	—
June	Nov.	Maynards	172	29.3	9.38	2.7	7.8	(5.2)
Jan.	June	Metal Box £1	148	7.12	†10.71	1.8	10.3	(5.8)
Nov.	June	Metal Closures	132	29.3	5.7	2.6	6.2	7.0
April	Dec.	Metalrax Jestique	16	15.3	‡1.3	0.1	‡	—
Dec.	June	Mettoy	7	18.5	—	—	—	—
—		Do. Defd.	6	—	—	—	—	—
July	Dec.	Moben Grp. 10p	20	12.79	♦—	—	—	5.1
Mar.	Oct.	M'santo 5pc 82-6	£123	11.1	Q5%	—	†4.1	—
Jan.	July	Morgan Crucible	121	23.11	7.5	♦	9.2	♦
Jan.	Aug.	Moss (Robt.) 10p	54	23.11	1.8	♦	4.8	♦

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

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FINANCIAL TIMES

Monday May 24 1982

Employers will ignore closed shop clause

BY JOHN LLOYD AND DAVID GOODHART

THE GOVERNMENT now accepts that many unions and employers will circumvent the closed shop provisions in the forthcoming employment legislation.

Mr Michael Alison, Employment Minister, admitted last week that deals are expected to be made at local level not to hold ballots on the closed shop. But he warned: "If unions and employers are going to collude on blocking ballots they must also agree not to sack people who don't join the closed shop."

The balloting provisions in the Employment Bill which demand that 80 per cent of the workforce, or 85 per cent of those voting, approve the closed shop have been singled out for particular attack by the Trades Union Congress.

The sanction on both union and employer is that where an *employee refuses to join a* closed shop which has not obtained ballot approval he may be able to claim £20,000 or more if dismissed. He can also make the union liable with the employer for damages if he can show that the union put pressure on the employer to dismiss him.

All unions have pleged themselves, at the conference of union executives last month, to ignore the closed shop provisions and to insist on "business as usual."

The Government evidently has been rattled by the opposition to the closed shop clauses, not just from the unions but from powerful business groups as well. Last month the Engineering Employers Federation asked for a two-year delay *in the clauses' implementation* because of fears of disruption in the workplace — a request which Mr Norman Tebbit, the Employment Secretary, is likely to grant.

Mr Alison's statement is a further attempt to defuse the possibly explosive nature of the measures, and to draw the unions into a "mutual tolerance" pact.

It may find a quiet and cautious welcome among union officials. Trade union leaders have shown some concern over the closed shop's image—as a report to last Wednesday's meeting of the TUC's employment committee showed — and have begun a campaign of speeches emphasising its benefits and the tolerance traditionally shown to non-joiners with *legitimate religious objections.*

The Government's case has been weakened further by an unpublished report which it commissioned from Professor John Gennard of Strathclyde University. This shows that few managers believe the closed shop encourages inefficiencies or imposes significant restrictions on liberty.

Employment Ministers say the report has not been published because it is unfinished. This is only technically correct. The report is completed but has not yet been formally "accepted" by the department and until it is it cannot be published.

Ministers continue to emphasise that weakening the closed shop with creating a more "responsible" attitude to industrial action, is the main aim of the legislation. The closed shop measures are particularly aimed at white-collar and local government employees — the only growth area for unions in recent years.

The Bill has completed its pasage through the Commons and will begin going through the Lords early next month. It *is still expected to become law* by late summer but further amendments in the Lords are still possible, which would mean a referral back to the Commons. Mr Tebbit has not ruled out further legislation — probably concentrating on internal union reform—during this Parliament.

UK groups in Gabon rail contract

By William Dawkins

EUROTRAG, the 18-member *consortium of European companies,* in which British civil engineering companies Taylor Woodrow and Wimpey have a 22½ per cent stake, have signed a protocol agreement with the Government of the oil-rich West African state of Gabon for a CFA 168bn (£308m) contract to build the 340 km second leg of the trans-Gabon railway. The deadline for signing the contract is September 15.

The first section of the railway is nearly complete. This covers 330 km from Libreville, the coastal capital, to Booue in central Gabon, and was undertaken by Eurotrag without the British companies.

They took a stake in the consortium last June rather than launch their own bid for the second section. This will extend to Franceville in the south-east and is due to be completed in August 1987.

The Gabonese Government has yet to work out the details of the expenditure on the second phase, contracts for which are still open to bidders. It is understood that contracts for stations, rolling stock, signals and other *equipment will be substantial.*

Arrangements are nearing completion for a £60m line of credit backed by the Export Credits Guarantee Department.

The earlier phase of the railway involved a project line of credit worth £10m—the first in Gabon supported by the ECGD. The funds for that came from Barclays, Lloyds and the Midland banks, among others.

The Midland will be the lead bank for the British share of funds for the second phase.

OECD sees bleak prospect for recovery

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE OUTLOOK for economic recovery and unemployment in Europe and North America remains bleak according to a confidential briefing paper prepared for Ministers by the Organisation for Economic Co-operation and *Development* (OECD).

It says the recovery so far has been rather technical and "offers little hope for preventing a further rise in unemployment."

It adds: "While inflation and cost price conditions have moved or are moving in a number of countries in the direction of encouraging the hoped-for strength in private investment, this has not yet developed and the immediate outlook at least is not encouraging."

The paper urges the U.S. to contain its Budget deficit and help the reduction of world interest rates. This is a theme expected to be taken up again strongly at the World Economic Summit meeting in June at Versailles.

It underlines this point: "The durability of any technical recovery which gets under way is questionable unless it is *joined by strong private investment.* Lower real interest rates will be necessary to sustain recovery . . . ."

Endorsing the general consensus among developed countries that sustained recovery is unlikely until inflation has been brought under control, the paper says the fight against inflation must continue to receive priority.

However, it argues that tight monetary policies should be operated flexibly where possible and says governments should plan their budget deficits with regard to the expected weakness or strength of domestic demand.

The OECD recognises the danger — spelled out more forcibly by the United Nations Committee for Development Planning — that tight policies in all countries could lead to a downward spiral of economic activity.

It says: "It is important to recognise that strong *simultaneous action to reduce deficits* by a large number of countries in an international environment of weak demand risks an outcome in which demand weakens further and as a result deficits do not come down very much."

But, *in* another obvious reference to the U.S., it says that reducing budget deficits in "certain countries" could be beneficial to the extent that this helped cut interest rates.

The paper advises: "It would also seem desirable if the monetary authorities could move progressively to a more pragmatic implementation of their stated monetary targets without perverse monetary responses."

On exchange rate policy—another theme on which the U.S. has been under pressure from European countries—the paper says: "A smoother working of the exchange rate mechanism is important." It puts the main emphasis on the linkage between high U.S. *interest rates and a strong* dollar.

However, the paper recognises with cautious approval that direct intervention has had an influence in stabilising European currency rates.

The U.S. response to call for a more interventionist policy in currency markets has remained sceptical. Mr Donald Regan, U.S. Treasury Secretary, has suggested an international study to determine whether government intervention can be effective.

This subject will come up at the Versailles summit, when some governments are expected to urge the U.S. to give more consideration to limited intervention to smooth currency fluctuations.

Poehl urges changes in U.S. economic policy

BY DAVID MARSH

A SOMBRE INDICATION of the economic issues threatening to divide the U.S. and its western allies at next month's Versailles summit was delivered in London at the weekend by Herr Karl Otto Poehl, *president of the* Bundesbank, West Germany's central bank.

Warning that unemployment in industrial countries would stay at 1930s levels even if economies pick up over the next year, Herr Poehl made a new European plea to the U.S. Government to curb its budget deficit to help bring down world interest rates.

Herr Poehl, who also made a new call for the U.S. to change its policy of not intervening on foreign exchange markets, fired a warning shot at Washington for urging tougher credit measures against the Soviet bloc.

Addressing an audience of 2,000 foreign exchange dealers at the annual meeting of the international Forex association on Saturday, Herr Poehl said that banks would anyway have to show more caution in inter*national lending.*

With rhetorical flourish he asked: "What good could possibly come of deliberately steering the international financial system into a crisis?" Problems would only be aggravated by considering the use of credits as a "political weapon," he said.

He hoped that the U.S. would show at the Versailles summit that it was having "second thoughts" on its international economic responsibilities. Up to now, American economic policies had been focused too much on domestic problems. "Now they have to understand that they are the biggest economy in the world . . . they have a responsibility for the well-being of the rest of the world."

Herr Poehl said high budget deficits in other countries as well as the U.S. — including his own — contributed to the *"rather exotic" level of interest* rates.

However, in a series of forthright answers to questions at the end of his speech, he termed the high level ofreal(inflation-adjusted) interest rates in the U.S. as "really killing."

A sound and lasting recovery of the U.S. economy was not likely to happen "as long as the burden of the fight against inflation rests solely upon monetary policy and as long as fiscal policy is moving in precisely the opposite direction."

U.S. investors did not at the moment believe that the current low U.S. inflation rates of 5 per cent or 6 per cent would last. Otherwise, capital market interest rates would not still be at 14 per cent or 15 per cent. Expectations of "huge" budget deficits in the years to come were fuelling these inflationary fears.

*If the markets became con*vinced that inflation would stay low, interest rates could come down immediately, even dramatically, he said. "I hope I'm right. Otherwise the world will get into terrible trouble."

In an unusually strong public attack on the operational techniques of American monetary policy, he suggested that the volatility of U.S. interest rates might be lessened if the Federal Reserve was allowed more flxibility and discretion.

The Fed's "monetarist critics" made this difficult, but "the fact that the Federal Reserve system seems to be tied to rules is in my view quite often the reason for the fluctuations."

GEC seeks ideas for research

By David Fishlock, Science Editor

IDEAS for a British collaborative research programme in advanced mico-electronics are being urgently sought by Mr Derek Roberts, GEC's director of research.

In a letter today to about 50 leading figures in industry, government and universities, Mr Roberts solicits advice on how Britain might set up a research collaboration in information technology comparable to Japan's "fifth-generation" computer system project.

Mr Roberts has been given responsibility for studying the "core technology" for any British project, namely very large-scale integration (VLSI) for silicon chips.

Earlier this year Mr Kenneth Baker, Minister for Information Technology announced a committee under the chairmanship of Mr John Alvey of British Telecom, to advise him of the scope for a *national research* effort.

The Alvey committee sees VLSI as the heart of such a programme, embracing all aspects of silicon chip technology, including design and programming of chips.

Its aim is to see that, by the late 1980s, Britain can be sure of access to internationally competitive VLSI.

***In addition to the Japanese* collaboration, the U.S. Government is backing a collaborative research project, and the U.S. electronics industry is studying other ambitious proposals for collaboration.**

Mr Roberts has asked his correspondents to canvas wider views on how Britain should respond to such projects, and to reply by June 10.

The Alvey committee expects to report to the Minister in July.

Business loan rules may tighten

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

THE GOVERNMENT is considering tightening the rules of its small firms loan-guarantee scheme because of the large amount of money that has been lent and because of the number of business failures.

More than 4,000 loans totalling nearly £140m have been agreed. The number of failures is believed to exceed 30, at a cost to the Government of more than £700,000 and is beginning to accelerate.

The Government may insist soon that businessmen pledge some personal security when taking loans and that the banks involved take responsibility for larger proportions of each loan.

Although the number of col*lapses indicates a failure rate* of only about one in 100 — not high for venture funding — the figure is big enough to have concentrated the minds of civil servants and ministers.

Under the scheme, the Government guarantees 80 per cent of loans made to small businesses, with little or no personal security from the businessman. The loans go up to £75,000 and are provided by 30 banks, which cover the remaining 20 per cent.

The Industry Department charges a 3 per cent premium, in addition to the banks' interest, for providing the guarantee. This has netted it about £1m so far.

The department will still be in credit on the scheme by about £300,000 once the cost of paying out some £700,000 on the *failures reported has been met* in full.

There is a risk that this balance could change if the number continues to rise sharply.

There is also a suspicion in Whitehall and among some financial institutions that not all the banks are reporting all their failures. The department's liability could be higher.

The department is conducting a survey of 75 loans made during the first six months of the scheme, which was introduced last June. When it is completed in the next few weeks, ministers will decide whether to tighten the rules.

Consideration will be given to forcing businessmen to provide some personal security, which might deter some people with high-risk projects from accept*ing loans.*

Such a move would detract from the scheme's original purpose.

'Retake Stanley' Continued from Page 1

maintain — control of the skies, *which would be vital if an* attack on Port tSanley was to succeed.

Besides the Sea Harriers and the RAF ground attack version of the Harrier, the task force has a battery of shipborne anti-aircraft weapons and, most importantly, now has several surface-toa-ir Rapier missile systems ashore.

If the task force is to carry out its order to recapture Port Stanley rapidly, air cover will be vital. The tactics to be deployed in the recapture of the Falklands capital will be decided by Rear-Admiral Sandy Woodward, the task force commander, who withi nhis overall "strategic" instructions has been given a great deal of room to decide how he runs the campaign.

Admiral Woodward is thought unlikely to order a full frontal attack on Port Stanley if only because of the likelihood of high *loss of life.*

A possible first target could be the settlements of Darwin, where there are believed to be about 1,000 Argntine troops—against perhaps 6,000-7,000 at Stanley. The Goose Green airstrip, a few miles from Darwin was bombarded on Saturday. Equally significant, a report from Robert Fox of BBC TV news yesterday evening indi*cated for the first time that the* frigate Ardent had been sunk as it was bombarding Gouse Green.

Whitehall indicated yesterday that the garrison in and around Port Stanley, in an attempt to improve its defensive posture, had not left its earlier positions.

It was also believed that the condition of Argentine prisoners captured from the San Carlos *garrison lent credence to the* view that the morale of the Argentines is low.

Admiral Woodward has *several options as he gathers* his forces for the attack on Port Stanley, including the possibility of re-embarking the majority of the marines and paratroopers and landing them in strategic positions a short distance from the capital.

Argentina continued yesterday to challenge Britain's claims that only one warship had been sunk, and four others *damaged, one of them seriously.*

Sr Costa Mendez said that four British frigates had been sunk, two damaged and three minor ships seriously damaged.

Against Britain's total of one Sea Harrier presumed missing and two helicopters shot down, Sr Costa Mendez said four Harriers and five helicopters had been shot down—though in a subsequent interview in *Spanish he claimed Argentina* had shot down five aircraft and two helicopters.

Weather

UK TODAY

CLOUDY, rain in western areas. Elsewhere dry with sunny intervals.

S.E., E. and Cent. N. England
Dry, sunny periods. Max. 17C (63F).

Rest of England, Wales, S.W. Scotland, N. Ireland
Cloudy, light showers. Max. 16C (61F).

Rest of Scotland
Sunny intervals, scattered showers. Max. 15C (59F).

Outlook: Rain, sunny intervals. Warmer.

WORLDWIDE

		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	F	21	70	L. Ang.†	C	17	63
Algiers	S	30	86	Luxmbg.	C	13	55
Amsdm.	F	15	59	Luxor		—	—
Athens	S	24	75	Madrid	S	27	81
Bahrain		—	—	Majorca	C	24	75
Barclna.	F	21	70	Malaga		—	—
Beirut	S	23	73	Malta	S	25	77
Belfast		—	—	M'chstr		—	—
Belgrd.	S	27	81	Melbne.		—	—
Berlin	C	20	68	Mx. C.†		—	—
Biarritz	C	16	61	Miami†	T	23	73
Bmghm.		—	—	Milan	F	23	73
Blackpl.	C	13	55	Montrl.†	C	10	50
Bordx	R	14	57	Moscow	C	13	55
Boulgn.		—	—	Munich	F	19	66
Bristol		—	—	Nairobi		—	—
Brussels	R	14	57	Naples	C	21	70
Budpst.	C	23	73	Nassau		—	—
Cairo	F	30	86	Nwcstl.		—	—
Cardiff		—	—	N York†	D	12	54
Cas'b'ca	S	23	73	Nice	F	21	70
Cape T.		—	—	Nicosia	F	24	75
Chicg †	D	13	55	Oporto		—	—
Cologne		—	—	Oslo	R	9	48
Cpnhgn.	R	12	54	Paris	R	12	54
Corfu	S	25	77	Perth		—	—
Denver†	F	11	52	Prague	C	17	63
Dublin	R	13	55	Rykjvk.	C	11	52
Dbrvnk.	S	22	72	Rhodes		—	—
Ednbgh.		—	—	Rio J'o†	C	24	75
Faro		—	—	Rome	C	23	73
Florence	C	22	72	Salzbrg.	S	19	66
Frankft.	R	14	57	S'cisco†		—	—
Funchal	S	19	66	S. Mritz.		—	—
Geneva	R	13	55	Singapr.	C	32	90
Gibrltr	S	23	73	S'tiago†		—	—
Gl'sg'w		—	—	Stckhm.	C	11	52
G'rnsey	C	13	55	Strasbg.	R	15	59
Helsinki	F	14	57	Sydney	S	19	66
H Kong	S	28	82	Tangier	S	30	86
Innsbrk	F	19	66	Tel Aviv	S	23	73
Invrnss	F	14	57	Tenerife	S	24	75
I o Man		—	—	Tokyo	S	23	77
Istanbul	S	21	70	T'r'nto†	R	9	48
Jersey	C	12	54	Tunis	F	25	77
Jo'burg	F	23	73	Valencia	C	24	75
L Plms.	S	22	72	Venice			
Lisbon	F	22	72	Vienna	C	17	63
Locarno	C	20	68	Warsaw	F	19	66
London	R	12	54	Zurich	R	16	61

C—Cloudy D—Drizzle. F—Fair. Fg—Fog. H—Hail R—Rain S—Sunny. Sl—Sleet. Sn—Snow. T—Thunder. † Noon GMT temperatures.

THE LEX COLUMN

Hangover time for France

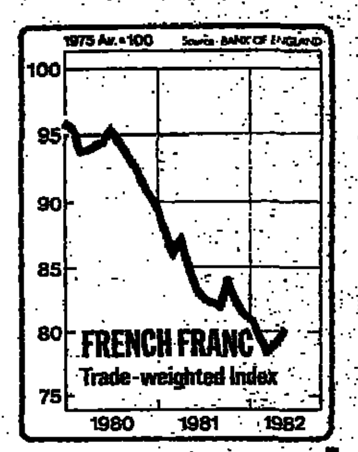
"If a business were being run on the same lines as the French state, one would be worried about its future." This remark appears in the magazine L'Expansion in a relatively sympathetic article about the first year of the Mitterrand presidency. It is perhaps unfortunate for the French Socialists that their experiment is taking place when rival businesses are being run on rather tighter lines. This lends France an air of irresponsibility that would not have been so obvious at the time of, say, the Carter adminis*tration, and it also puts great* pressure on the balance of payments as France tries to engineer an economic recovery all by itself.

That said, many of the disasters so freely forecast when the Mitterrand administration came to power last spring have not happened — at least not yet. Labour relations have been remarkably smooth, inflation has not moved up to Italian levels, and the French franc has not lost half its external value.

The calm on the labour front, however, has been bought with a shorter working week, longer holidays, and bigger welfare payments, while real incomes continued to rise in 1981. The modest acceleration in retail price inflation has to be seen against the background of severe *disinflation worldwide;* relative to its major trading partners, France has done poorly in this respect. The franc stands at six to the dollar because it is buttressed by a stringent new set of exchange controls. French residents wishing to purchase foreign assets buy their dollars through a premium pool, and last week they cost FFr 7.80.

There is a general feeling among French economists outside the Government that the bills for the Socialists' post-election party are about to roll in. Already the Government has taken fright at the level of future spending (not least on debt service) that its programme implied. After a rather fortuitous undershoot in 1981, estimates for the 1982 budget deficit had been revised upwards by nearly a third before the first quarter of the year was out, and the social security budget is projected to move into alarming deficit over the next few years. The Budget Ministry is scrambling to hold the overall deficit to 3 per cent of GDP.

Late on Friday a visible trade deficit of more than FFr 10bn was reported for April. The deficit for the first half of 1982



seems likely to be roughly the same as for the whole of 1981, even though energy imports have been flat in price and down in volume, while the slack level of industrial investment is keeping down imports of capital goods.

The inflation rate, artificially depressed by price controls during the winter, has begun to move up in the last couple of months — back over 14 per cent year-on-year in March — and industrial wholesale prices are rising rapidly as businesses pass on the costs of the Government's social reforms. Wages are beginning to take off. After a rapid acceleration in the last quarter of 1981, preliminary reports suggest an annual rate of growth approaching 20 per cent in the first quarter of this year.

The franc, having survived a difficult few weeks in the early spring, seems unlikely to get through the summer without a devaluation within the European Monetary System, although no doubt the French authorities will press for this to be dressed up as a D-Mark revaluation. The Bank of France's currency reserves are at a very low ebb, equivalent to less than one month's imports, in spite of the revaluation of the dollar component over the past year. M Jacques Delors, the Finance Minister, suggested recently in a television interview that a decision on the franc could be put off until the end of the year. As he also forecast an 8 per cent inflation rate for 1983, he perhaps did not intend to be taken seriously.

Like governments everywhere, the French administration is concerned about the low level of industrial investment—down 3 per cent in volume last year and probably heading for another fall in 1982—which it inclined to blame on political sabotage. However, there has been a considerable shift of resources from the corporate to the personal sector, which has not nearly been offset by the easing of the franc. Corporate cashflows have been squeezed by a variety of new levies and obligations on top of the higher wage costs imposed through the reduction in the working week and increased social security contributions.

According to the Employers' Federation, the burden imposed on industry by these measures works out at FFr 93bn in a full year. The Government's preliminary calculation, taking into account the boost to consumer *demand and potential productivity* gains owing to some sort of blue-collar, supply-side effect, came up with a cost of FFr 6bn. The difference between the two figures nicely illustrates the philosophical gulf.

Some minor concessions have been made since—future reductions in the working week have been postponed—which have been received by the employers with touching gratitude, while *the Communist party* mutters about cadeaux for capitalists.

Nationalisations

The newly nationalised industrial companies, which are supposed to be the leading edge of industrial investment, are not exempt from the squeeze. Having paid shareholders in the industrial companies — if not the banks — *far too much com*pensation when the businesses were taken over, the Government finds that three out of the five groups it has bought are losing money. There is little point in building new capacity in many parts of these companies, which represented the commanding heights of the economy 20 years ago but are now working way below capacity.

Economic management may well become much more sober now that many of the new socialist manifesto promises have been carried out. The new line on the budget, for example, is hard to distinguish from that of the last Government, and elsewhere the familiar pressures of the international marketplace are bearing down on France. If unemployment sticks at above 2m for long, however, the Government may be tempted into another radical dash. It desperately needs a stronger world economy to paper over the cracks at home. For the moment, like lots of other indifferently managed businesses, France is living way beyond its means, but remains well placed to take advantage of an upturn in demand.

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